Committee: General Purposes

Date: 27 September 2012

Agenda item: 4

Wards: All

Subject: Audited Final Accounts 2011/12

Lead officer: Caroline Holland, Director of Corporate Services

Lead Member: Cllr Mark Allison – Cabinet Member for Finance

Contact officer: Paul Dale: AD Resources 0208-545-3458

Key decision reference number: This report is written and any decisions taken are within the Budget and Policy Framework Procedure Rules as laid out in Part 4-C of the Constitution.

Recommendations:

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1. That the General Purposes Committee is recommended to approve the audited Statement of Accounts, including the Pension Fund Accounts.
2. That the General Purposes Committee note any comments made by the Pensions Fund Advisory Panel in relation to the Annual Pension Fund Accounts 2011/12.
3. To note the Audit Commission's Annual Governance Report for the Council's Pension Fund accounts under the International Standard on Auditing 260 (ISA 260) including the agreed action plan.
4. To note the Audit Commission's Annual Governance Report for the Council's main accounts under the ISA 260.
5. That the Chair signs the Letter of Representation for the Council's 2011/12 main accounts.
6. That the Chair signs the Letter of Representation for the Council's 2011/12 Pension Fund accounts.

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1. Purpose of report and executive summary

1.1 This report presents the audited Statement of Accounts for the year ended 31st March 2012 for adoption by the General Purposes Committee in accordance with the statutory requirements contained in the Accounts and Audit Regulations 2011 and the ISA 260.

1.2 The Council's 2011/12 final accounts, including the Pension Fund accounts, have now been audited and these audited accounts are contained in Appendix 2 to this report. A summary of these accounts, the Council's Summary Accounts, are provided in Appendix 1. A full list of any changes made to the accounts arising from the audit is detailed at Appendix 3 with supporting narrative. Appendices 4 and 5 contain the Audit Commission's Annual Governance Reports on the main accounts and Pension Fund respectively. Finally, the three Letters of Representation, two for the main accounts and one for the Pension Fund, are provided at Appendices 6 and 7 respectively.

2. Details

2.1 **Accounting Code of Practice**: Section 21(2) of the Local Government Act 2003 requires local authorities in the United Kingdom to keep their accounts in accordance with "proper practices". This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom, prepared by the CIPFA/LASAAC Joint Committee. The Code specifies the principles and practices of accounting required to give a "true and fair" view of the financial position and transactions of a local authority. In particular, it prescribes the accounting treatment and disclosures for all normal transactions of a local authority.

2.2 For financial years commencing on or after 1st April 2010, the Code is based upon the hierarchy of standards set out below:

a) International Financial Reporting Standards (IFRSs)

b) International Public Sector Accounting Standards (IPSAs)

c) UK Generally Accepted Accounting Practice (UK GAAP)

2.3 **Accounts and Audit Regulations**: These specify the timetable for producing the Council's accounts which is as follows:

a) That the Council's accounts must be ready for audit by no later than 30th June 2012 and in particular that the responsible financial officer must sign and date the accounts and certify that it presents a true and fair view of the financial position of the body at the year end and of that body's income and expenditure for that year (Regulation 8(2)). There is no requirement for approval by committee at this stage.

b) That the committee of members must approve the statement of accounts by the 30th September 2012; thereafter the accounts must be signed and dated by the chairman of that committee and then published (which must include publication on the Council's website). (Regulation 8(3) and 8(4)).

2.4 In addition, if there are any amendments to the accounts, the Chief Financial Officer must re-certify the presentation of the statement of accounts. CIPFA has made recommendations concerning re-certification: the Chief Financial Officer should sign and date the balance sheet (in line with SORP requirements) and include the following statement on the face of the balance sheet: "these financial statements replace the unaudited financial statements authorised at the meeting of the General Purposes Committee on 28th June 2012".

2.5 **Audit of the Council's accounts**: (a) Completion of audit work and approval of accounts: The Audit Commission expect to complete their audit work on the Council's Final Accounts no later than the 21st September. The results of the audit are that the accounts are free from qualification although there are some errors, which have changed certain figures in the draft accounts submitted to the Council in June. The adjustments to correct these errors are contained in Appendix 3. Subject to Members being satisfied with the audited accounts, Members are requested to recommend that the Council approve the audited accounts 2011/12.

2.6 (b) Annual Governance Reports: The Audit Commission has issued its Annual Governance Reports (AGRs), under the ISA 260. The auditors are required to comply with the Auditing Standards contained under ISA 260, which covers 'Communications of Audit Matters with those charged with governance'. The auditor is required to report relevant matters relating to the audit to those charged with governance. There is one AGR for the main accounts and one for the Pension Fund accounts. The Pensions Fund AGR contains an Action Plan with recommendations. Officers have responded to these recommendations and their responses are included in the Pensions AGR.

2.7 (c) Letters of Representation: International Standard on Auditing 580 (ISA 580), covering Management Representation, requires that the auditor be provided with written representation from management with appropriate responsibilities and knowledge of the financial statements. This applies to the main accounts and the Pension Fund Accounts.

2.8 ISA 260, which emphasises two-way communication between auditors and those charged with governance, indicates that those charged with governance should sign agreement to the letter of representation. After the Committee has discussed and agreed the letter of representation, it has to be signed by the Chief Financial Officer. The Chair of the Committee is then required to sign agreement to the letter of representation. Copies of the letters to be signed for the main accounts and the Pension Fund accounts are attached as Appendices 6 & 7.

2.9 **Financial Summary**: The changes to the main accounts and their impact are set out in paragraphs 2.10 to 2.12 and Tables 1 to 3.

2.10 Balance Sheet: Table 1 shows the adjustments to the Balance Sheet as a result of the audit. There are cross-references to Appendix 3, which contains a full breakdown with supporting narrative of the errors and necessary adjustments made to the accounts following the audit. These adjustments are also listed in the Audit Commission's Annual Governance Report. The audit adjustments reduce Usable Reserves by £2.027m compared to the figure reported in June. This reduction comprises (a) a reduction in revenue reserves and fund balances of £1.594m and (b) a reduction in usable capital grants of £0.433m. The reduction in revenue reserves and fund balances is composed of £0.593m reduction in General Fund balances and £1.001m reduction in earmarked revenue reserves. The reduction in earmarked revenue reserves is in respect of the Single Status reserve (£0.538m) and the Insurance reserve (£0.463m).

Table 1: Change in Balance Sheet as a result of the audit

	2011/12 Draft (To June Committee) £ 000	2011/12 Audited (to Sept Committee) £ 000	2011/12 Change Between Committees £ 000	Appendix 3 Section 1 reference
Long Term Assets	436,724	436,723	(1)	Rounding
Current Assets	105,349	105,644	294 1	3 Rounding
Current Liabilities	(55,912)	(58,639)	(2,727)	1, 3, 5,6
Long term Liabilities	(361,353)	(360,947)	406	1, 4
Net Assets	**124,808**	**122,781**	**(2,027)**	
Usable Reserves	(88,736)	(86,709)	2,027	4,5,6
Unusable Reserves	(36,072)	(36,072)	0	
Total Reserves	**(124,808)**	**(122,781)**	**2,027**	

2.11 Fund Balances and Reserves: Table 2 contains a breakdown of revenue balances and reserves, which when the Collection Fund balance is included, stand at £72.146m. The General Fund figure of £13.975m is composed of £9.921m General Fund Balances and £4.054m from the former Housing Revenue Account.

Table 2: Reserves- changes as a result of the audit

	1 2010/11 Restated £000	2 2011/12 Draft £000	3 2011/12 Audited £000
1. Usable Reserves			
General Fund Balance	14,567	14,568	13,975
General Fund-Schools	8,026	12,005	12,005
Earmarked revenue grants and contributions	3,609	4,801	4,801
Earmarked reserves- excluding schools	22,055	30,709	29,708
Earmarked reserves- schools	8,164	7,386	7,386
Revenue reserves and balances	**56,421**	**69,469**	**67,875**
Unapplied capital receipts	10,799	15,199	15,199
Unapplied capital grants	4,581	4,068	3,635
Other usable reserves	**15,380**	**19,267**	**18,834**
Total Usable Reserves	**71,801**	**88,736**	**86,709**
2. Unusable Reserves			
Collection Fund	4,701	4,272	4,272
Other unusable reserves	102,873	31,800	31,800
Total Unusable Reserves	**107,574**	**36,072**	**36,072**
Total Reserves	**179,375**	**124,808**	**122,781**

2.12 Outturn Table 3 shows the final outturn for the year. The departmental figures are those reported to the General Purposes Committee on the 28th June 2012 as amended for audit adjustments no. 5 and no.6, the provision of £1.131m for Single Status and the addition to the Insurance provision of £0.463m for the MMI Scheme of Arrangements. The final underspend on General Fund was £11.454m,

Table 3: 2011/12 Outturn and Budget Variances (following audit)

	2011/12 Current Budget £000	2011/12 Outturn £000	2011/12 Variance £000
Department			
Corporate Services	25,643	27,640	1,997
Childrens, Schools and Families	35,849	34,735	(1,114)
Community and Housing	58,026	54,973	(3,053)
Environment and Regeneration	24,815	23,521	(1,294)
Net Service Expenditure	**144,333**	**140,869**	**(3,464)** (1)
Corporate Provisions (including rounding)			**(7,990)**
Net Underspend			**(11,454)**

Notes

(1) Reported to General Purposes Committee in June 2012: Table 1 £5.058m underspend less £1.594m reduction due to provisions for Single Status (£1.131m) and MMI liability (£0.463m).

3. Alternative Options

3.1 None for the purposes of this report.

4. Consultation undertaken or proposed

4.1 Under the Audit Commission Act 1988, Sections 15 and 16, the Council is required to make available to any person, copies of the Council's accounts and information relating to them for inspection to any interested person. By prior appointment, interested persons were also able to question the auditor about the accounts from Thursday 23rd August 2012. Copies of the Council's 2011/12 accounts were made available for inspection from 26th July 2012. Advertisements were placed on the Council's website from the beginning of July 2012 and in the Wimbledon Guardian on Thursday 12th July and Thursday 19th July 2012 to make this fact known to the public or any other person interested in making such an inspection.

5. Timetable

5.1 The Statement of Accounts has been audited within statutory requirements.

6. Finance, resource and property implications

6.1 These are contained in the body of the report.

7. Legal and statutory implications

7.1 These are contained within the report, Members are referred to the Council's Constitution, and in particular the Financial Regulations, which are set out in Part 4f.

8. Human rights, equalities and community cohesion implications

8.1 None for the purposes of this report.

9. Crime and disorder implications

9.1 None for the purposes of this report.

10. Risk management and health and safety implications

10.1 None for the purposes of this report.

11. Appendices

11.1 The following documents are to be published with this report and form part of the report

- Appendix 1: Summary Accounts 2011/12
- Appendix 2: Statement of Accounts for the year ended 31st March 2012.
- Appendix 3: Adjustments to the accounts following audit
- Appendix 4: Audit Commission Annual Governance Report - main accounts
- Appendix 5: Audit Commission Annual Governance Report - Pension Fund Accounts
- Appendix 6: Letters of Representation for the main accounts
- Appendix 7: Letter of Representation for the Pension Fund Accounts

12. Background Papers

12.1 The papers used to compile this report are held within the Corporate Services Department. Specifically, they include:-

- Statement of Accounts 2011/12
- Working papers for the accounting entries
- Code of Practice on Local Authority Accounting in the United Kingdom
- 2011/12.
- CIPFA- technical bulletins

Summary Statement of Accounts

31st March 2012

INTRODUCTION

The purpose of this explanatory paper is to provide Council stakeholders with a guide to the full Statement of Accounts and to give clear answers to the following key questions:

- What did our services cost in the year?
- Where did the money come from?
- What are our assets and liabilities?

It is both a summary and an interpretation of the accounts, highlighting the key issues that have arisen during the financial year. The full set of accounts and this summary are also available on the Council's website at www.merton.gov.uk/council/finance.

THE STATEMENT OF ACCOUNTS

The Statement of Accounts, which has been prepared in accordance with the Local Authority Code of Accounting Practice, is the source of information for this paper, which focuses on the following key areas:

Comprehensive Income and Expenditure Statement - Shows the net cost of Council services and the income received from fees and charges and specific grants from Central Government.

Balance Sheet - Shows the Council's assets and how they have been financed.

Housing Revenue Account - Reflects the statutory obligation to account separately for the provision of Local Authority housing.

Pension Fund - Shows member contributions to the fund and the benefits paid from it, together with details of investment activity during the year. It excludes Pension Fund liabilities.

FINANCIAL HIGHLIGHTS 2011/12

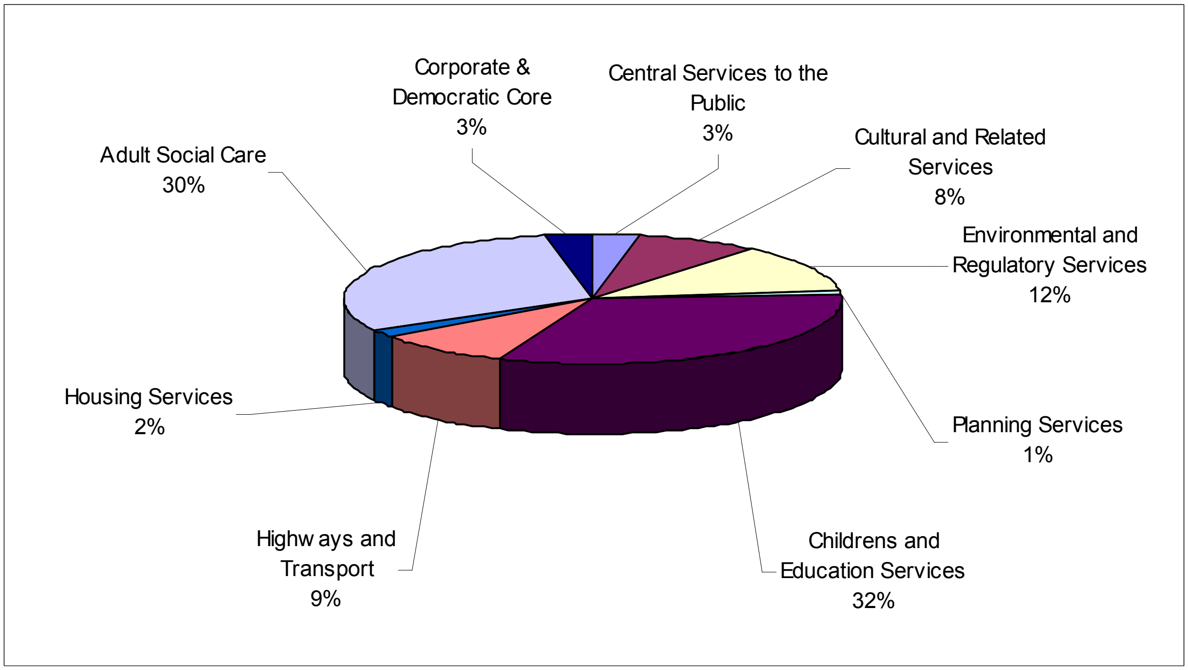
- The Council spent £42m on capital schemes, a reduction of 10% from 2010/11.
- Total net assets decreased by £56m, with usable reserves increasing by £15m.
- Long Term borrowings stayed at around £117m.
- The HRA has been closed and the balance transferred to General Fund.
- The pension fund deficit on an IAS19 basis increased by £87m.
- The Council had an underspend of £11m in 2011/12.

REVENUE SPENDING

Merton's net cost of services was £173m, attributable to services as shown:

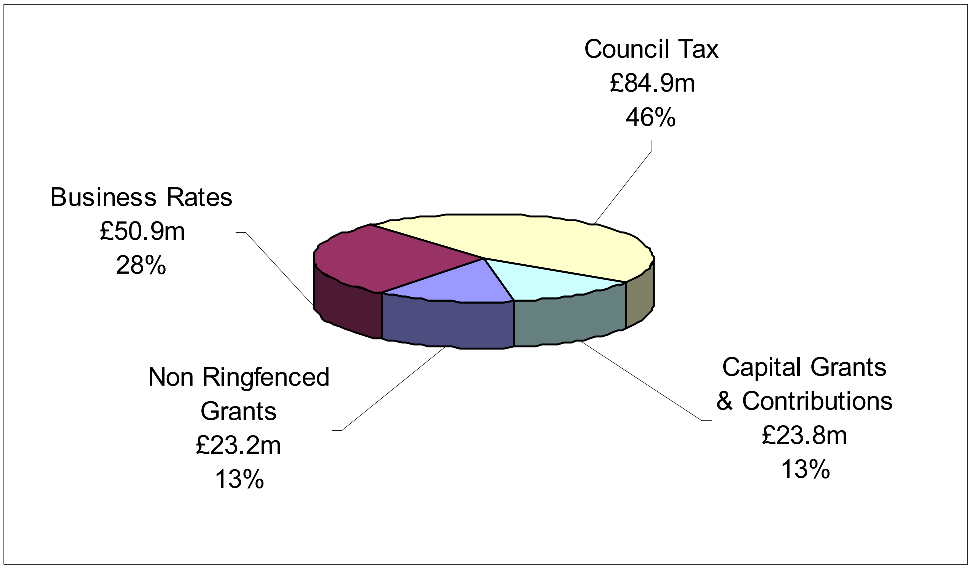
Service Areas	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Central Services to the Public	21,861	(17,007)	4,854
Cultural and Related Services	16,458	(2,531)	13,927
Environmental & Regulatory Services	25,499	(4,889)	20,610
Planning Services	4,913	(2,552)	2,361
Education and Children's Services	212,342	(157,558)	54,784
Highways and Transport	26,232	(11,691)	14,541
Housing GF Services (Note 1)	87,474	(84,530)	2,944
Adult Social Care	75,830	(25,610)	50,220
Corporate & Democratic Core	4,995	0	4,995
Non Distributed Costs	6,849	(3,069)	3,780
Net Cost of Services	**482,453**	**(309,437)**	**173,016**

Note 1 - Includes Housing Benefits, Homelessness and Supporting People.



How was expenditure funded?

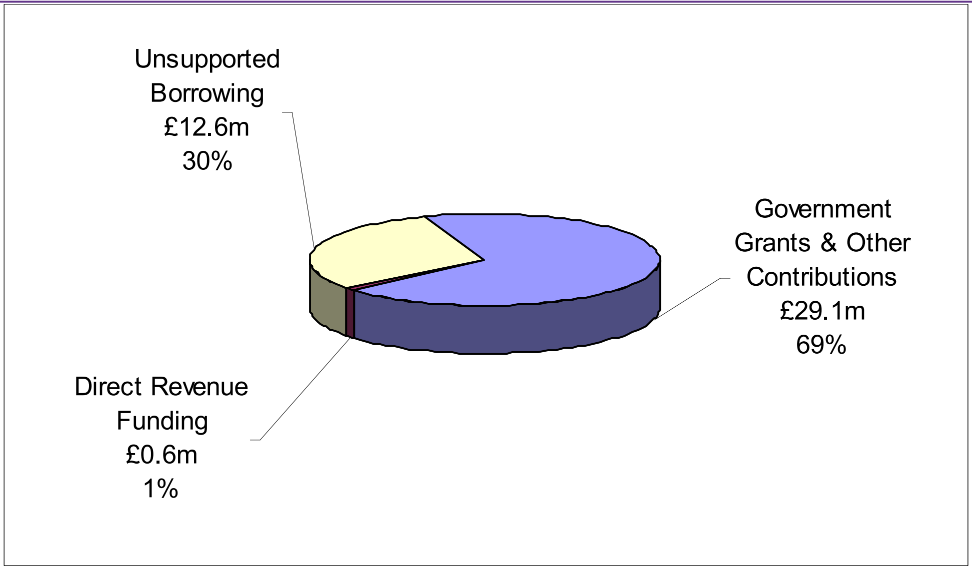
Other than income collected by departments from fees, charges and specific government grants, services are paid for from revenue support grant, which is money from Central Government, contributions from the business rates pool and Council Tax and special grants for specific purposes. The following chart shows the actual funding for 2011/12:



In 2011/12, Merton's Council Tax is the 9th lowest Council Tax (Band D) of the twenty outer London boroughs.

CAPITAL SPENDING

Capital expenditure relates to spending on fixed assets such as buildings and equipment where the benefits to the authority last for more than one year. The Council spent £42.3m in 2011/12, which was financed from a variety of resources as shown below:



FINANCIAL HEALTH

The Council's Balance Sheet gives a snapshot of the Council's financial position at the year-end (i.e. 31st March 2012). It shows what the Council owns (its assets) and what it owes (its liabilities) and the funds which support them.

Summary Balance Sheet at 31st March 2012

Assets	£m
Fixed and Other Long Term Assets	437
Current Assets including investments, cash and debtors	105
Current Liabilities including creditors and short term borrowing	(58)
Total Assets Less Current Liabilities	**484**
Long term borrowings	(117)
Other liabilities and provisions	(54)
Pension Fund Liability	(190)
Total Long Term Liabilities	**(361)**
Total Net Assets	**123**
Represented by:	
Reserves and balances which can be spent	(87)
Reserves and balances which cannot be spent	(36)
Total Net Worth	**(123)**

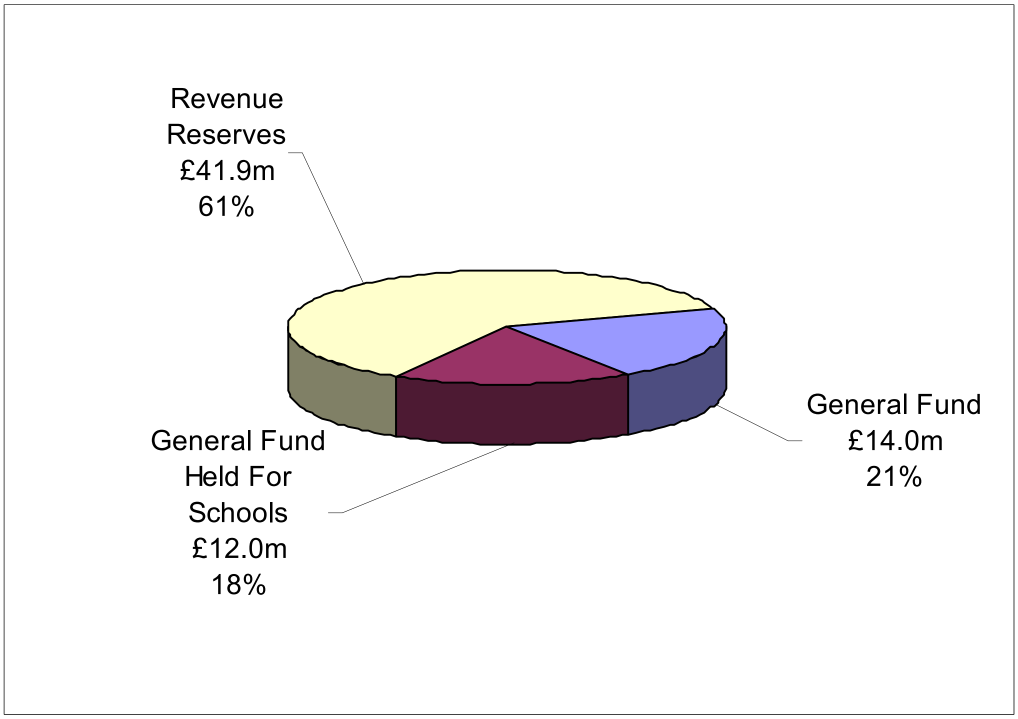
The main changes in the Balance Sheet compared to 2010/11 are as follows: -

Account category	£m
An increase in Long Term assets mainly due to an increase in Property, Plant & Equipment	19
A reduction in net current assets due mainly to a decrease short term investments	(13)
A reduction in net current liabilities mainly due to a fall in temporary borrowing	21
An increase in long term liabilities mainly due to an increase in the net pension fund liability	(83)
Change in Net Assets	**(56)**

RESERVES AND FUND BALANCES

In total, the Council now has usable reserves and fund balances, amounting to £67.9m, which are broken down overleaf.

Breakdown of Fund Balances and Revenue Reserves



HOUSING REVENUE ACCOUNT (HRA)

This account is concerned with transactions involving the management of the Council's housing stock and the key financial highlights are summarised below:

The Council transferred its housing stock to Merton Priory Homes on 22 March 2010 and now has no homes or garages in the HRA. The HRA was closed on the 31st March 2011 and the balance transferred to the General Fund. There were no HRA transactions in 2011/12.

PENSION FUND

The pension scheme is financed by contributions from employees and the employer, together with income and proceeds from investments administered by the Council. The Council is required to report the assets and liabilities on a commitment basis (IAS19), on this basis the assets in the scheme, measured at fair value, increased by £12m during the year to £363m. The estimated pension liability increased by £99m to £553m, leading to a £87m increase in the pension deficit, which stands at £190m. Although this is a significant liability the Council does have a long term plan to reduce this deficit and does not foresee problems meeting its current and future pension liabilities.

Disclaimer: - All of the figures in this summary have been compiled having due regard to proper accounting practice. In order to provide simplified and meaningful summary information, some figures have been combined.

Statement of Accounts

For the year ending 31st March 2012

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Explanatory Foreword

1. Introduction

The purpose of this foreword is to provide a guide to the most significant matters reported in the Council's final accounts for 2011/12, which comprise of the following statements, and the purpose of each is briefly explained below.

- **The Statement of Accounting Policies** - explains the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

- **The Movement on Reserves (MRS)** – shows the movement in the year on the different reserves held by the authority and is used to adjust the net surplus or deficit on the Comprehensive Income and Expenditure Statement (CIES) to the amount chargeable under statute to the Council's General Fund.

- **The Comprehensive Income and Expenditure Statement (CIES)** – shows the accounting cost in the year of providing services for the functions for which the Council is responsible and demonstrates how they have been financed.

- **The Balance Sheet** - summarises the authority's financial position at the year-end.

- **The Cash Flow Statement** - summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

- **Notes to the Core Financial Statements** - provide additional information which supports and explains the figures in the Core Financial Statements.

- **The Collection Fund** - reflects the statutory requirement for billing authorities to maintain a separate account that shows the transactions of the Council in relation to non-domestic rates and Council Tax.

- **The Housing Revenue Account** - reflects a statutory obligation to maintain a separate income and expenditure account for council housing.

- **Pensions Fund Accounts** - shows the contributions to and the benefits paid from the Pension Fund and identifies the investments which make up the assets of the fund.

2. Restatement of 2010-11 Position

The 2010/11 financial position has been restated to show a reduction in net worth from £239m to £179.4m, a restatement of £60m. The restatement was due to accounting changes, particularly a major impairment in the value of land prior to 2010/11. The restatement affected unusable reserves only.

Table 1 Restatement of 2009/10 and 2010/11 accounts

	2009/10 Audited £000	Land PPA £000	PFI PPA £000	2009/10 Re-stated £000	2010/11 Trans-actions £000	Land PPA £000	Heritage Assets PPA £000	PFI PPA £000	2010/11 Re-stated £000
Long Term Assets	454,194	(62,490)		391,704	23,499	2,058	669		417,930
Current Assets	116,816			116,816	1,861				118,677
Current Liabilities	(62,445)		(1,247)	(63,692)	(17,265)			195	(80,762)
Long Term Liabilities	(429,526)		1,247	(428,279)	152,004			(195)	(276,470)
Net Assets	**79,039**	**(62,490)**	**0**	**16,549**	**160,099**	**2,058**	**669**	**0**	**179,375**
Usable Reserves	(61,970)			(61,970)	(9,831)				(71,801)
Unusable Reserves	(17,069)	62,490		45,421	(150,268)	(2,058)	(669)		(107,574)
Net Worth	**(79,039)**	**62,490**	**0**	**(16,549)**	**(160,099)**	**(2,058)**	**(669)**	**0**	**(179,375)**
See Note:		12	43			12	12, 54	43	

3. Comprehensive Income and Expenditure Account

The Council's overall net expenditure on services for 2011/12 was £173m and this was £3.9m below budget, predominately in waste, adult social care and in children's services. In addition, there were underspendings on corporate transactions, mainly the cost of borrowing, amounting to £7.5m. Therefore, in total, there was a net underspend of £11.5m against the approved budget. This is summarised below.

Table 2 Variances from 2011/12 revenue budget

Variances from budget	£000
Net Service Expenditure	(3,464)
Corporate Transactions	(7,990)
Net Underspend	(11,454)

In addition to the expenditure against budget there are other items within the income and expenditure account. The Council's income and expenditure account shows a deficit of £56.6m in 2011/12 compared to a restated surplus of £162.2m in 2010/11. This amounts to a year on year change of £218.8m.

The main reasons for the year on year change were as follows-

(a) changes in accounting for pensions under IAS19; in particular, there were year on year changes in the Past Service Costs' figure within Non Distributed Costs (£43m) and in actuarial gains and losses (£191m),
(b) an increase in unrealised gains on the revaluation of property, plant and equipment (£30m)

The Council's reserves are classified as Usable and Unusable. Usable Reserves can be applied to the provision of services by financing revenue and capital expenditure. Unusable Reserves are not available to provide services but hold either unrealised gains or losses (e.g. Revaluation Reserve) or are adjustment accounts. Adjustment accounts absorb those differences, which arise between the requirements of accounting practice (entries made in the CIES) and statutory requirements (adjusting entries made in the MRS between the CIES and Unusable Reserves). The 2011/12 MRS shows that of the deficit on the CIES of £56.6m, £71.5m was transferred to Unusable Reserves, enabling £14.9m to be allocated to Usable Reserves.

During 2011/12 the Council's Usable reserves increased by £14.9m and this was composed of an increase of £11.45m in Fund Balances and revenue reserves, a £4.4m increase in the Capital Receipts Reserve and a reduction of £0.95m in capital grants unapplied. General Fund balances stand at £13.97m (£14.5m at the end of 2010/11). The Schools' General Fund balance has increased by £4m to £12m. The remaining Housing Revenue Account balance of £4.05m was transferred to General Fund Balances, following the closure of the Housing Revenue Account on 31st March 2011. Earmarked revenue reserves (including grants' and contributions' reserves) increased from £33.8m to £41.9m.

Table 3 Fund Balances and Reserves

	2010/11 £000	2011/12 £000
Fund Balances and Revenue Reserves	56,421	67,875
Capital Receipts Reserve	10,799	15,199
Capital Grants Reserve	4,581	3,635
Usable Reserves	**71,801**	**86,709**

It is expected that the Council's funding from Central Government for the foreseeable future will be affected by public sector financial restraint and in addition, the Council is facing continuing inflationary cost pressures and demographic changes, which mainly impact on Adult Social Care and Children's Services. However, the Council's continuing strategy of maintaining a prudent level of reserves should ensure the continuing financial stability of the organisation and the maintenance of services. There were no material or unusual charges or credits in the accounts during the year.

4. Capital

Capital expenditure amounted to £42.3m in 2011/12 (£46.5m in 2010/11). The programme was financed through internal borrowing of £12.6m, capital grants of £29.1m and £0.6m of revenue contributions. There were no significant assets acquired during the year. Capital receipts in year totalled £10.7m. Total external long term borrowing amounts to £117m.

5. Pensions

The actuarial valuation of the pension fund, which is carried out every three years, determines the impact on Council Tax of the cost of paying for pensions. During the inter-valuation period the funding level has fallen from 91% as at March 2007 to 84% at the last valuation date of 2010 and a deficit of £67m. The next triennial valuation will be in 2013. The focus of the triennial valuation is the long-term financial health of the Pension Fund and to set a contribution rate to maintain this.

For accounting purposes a valuation under IAS19 is carried out to produce an accounting figure of surplus or deficit as at the date of the Balance Sheet and in doing this, the methodology used is affected by current assumptions and short-term economic market conditions.

The Pension Fund deficit, on an IAS19 basis rose from £103m to £190m, an increase of £87m. The authority's actuary estimated that as at 31st March 2012, future liabilities amount to £553m (£454m as at 31st March 2011) with assets of £363m (£351m as at 31st March 2011).

6. Significant changes in Accounting Policies

The Council's accounts are compliant with the 2012 Code of Practice on Local Authority Accounting, which is based upon International Financial Reporting Standards (IFRS). This is the second year that the Council's accounts have been prepared on an IFRS basis; the policies are mainly a consolidation of new policies adopted in 2010/11 as a result of the adoption of IFRS. Consequently, there have been no significant changes to the Council's accounting policies, although other changes were made in line with the updated 2012 Code of Practice, the key one of these being the requirement of Local Authorities to report on Heritage Assets within their financial statements.

7. Review of Financial Year

As a consequence of the economic climate and public sector financial restraint, the Council undertook a thorough impairment review of its assets for its 2010/11 Statement of Accounts. The Council's Net Worth decreased by £56.6m in 2011/12. The main reason for this is the increase in the Council's Pension Fund deficit measured on an IAS19 basis.

8. Future Developments

Sustainability
Climate change, global warming, rising energy costs and water shortages are challenges every business, organisation and individual faces. The Council recognises these problems and understands its responsibility to help create a more sustainable environment for current and future generations. In response to these difficulties a number of strategic initiatives have been developed to reduce waste and energy consumption, to encourage recycling, to preserve existing water levels and cut the level of carbon dioxide emissions.

Council Tax Benefit
The Council will, from April 2013, be responsible for devising and implementing a local Council Tax support scheme to replace Council Tax benefit. The Council will receive a reduction of approximately 10% in funding for this new local scheme.

Business Rates
From April 2013 the business rates retention scheme will be implemented. Council's will be able to retain a proportion of business rates growth within the area. Exact details of the expected levels of business rates that will be retained are not yet known.

Schools Funding
The government is changing the way that local authorities allocate the Dedicated Schools Grant funding to schools in 2013/14. The changes will have an impact on schools as we move to a simpler formula and change the basis on which SEN is funded. Whilst the overwhelming majority of local authority services will now be funded from the High Cost Pupil and Early Years blocks some local authority services, previously funded from retained items, may now need to be funded through schools buy back or could cease all together, depending on the result of the school consultation.

Community Infrastructure Levy
The Community Infrastructure Levy (CIL) came into force in England and Wales in April 2010. It allows local authorities in England and Wales to raise funds from developers undertaking new building projects in their area. The money can be used to fund a wide range of infrastructure that is needed as a result of development.
From 1 April 2012 the Council along with other London authorities will be collecting Community Infrastructure Levy on behalf of the Greater London Authority to fund Crossrail. The GLA will set the level of charges for developers. In 2013/14, the Council will be introducing its own CIL levy with its own schedule of charges. All CIL levy charges will be per square metre of additional floor space.

Core Financial Statements

1. Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services represents the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts which are required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves represents the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserves £000	Major Repairs Reserves £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2010 (Restated)	(16,760)	(22,872)	(4,656)	0	(5,444)	0	(12,238)	(61,970)	44,753	(17,217)
Movement in reserves during 2010/11										
Surplus or (deficit) on the provision of services	(58,864)	0	602	0	0	0	0	(58,262)	0	(58,262)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	(103,896)	(103,896)
Total Comprehensive Income and Expenditure	(58,864)	0	602	0	0	0	0	(58,262)	(103,896)	(162,158)
Adjustments between accounting basis & funding basis under regulations (Note 7)	46,129	0	0	0	(5,355)	0	7,657	48,431	(48,431)	0
Net Increase/Decrease before Transfer to Earmarked Reserves	(12,735)	0	602	0	(5,355)	0	7,657	(9,831)	(152,327)	(162,158)
Transfers to/from Earmarked Reserves (Note 8)	10,957	(10,957)	0	0	0	0	0	0	0	0
Increase/Decrease in 2010/11	(1,778)	(10,957)	602	0	(5,355)	0	7,657	(9,831)	(152,327)	(162,158)
Balance at 31 March 2011 carried forward (Restated)	(18,538)	(33,829)	(4,054)	0	(10,799)	0	(4,581)	(71,801)	(107,574)	(179,375)

APPENDIX 2

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Movement in reserves during 2011/12										
Surplus or (deficit) on the provision of services	(342)	0	0	0	0	0	0	(342)	0	(342)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	56,936	56,936
Total Comprehensive Income and Expenditure	(342)	0	0	0	0	0	0	(342)	56,936	56,594
Adjustments between accounting basis & funding basis under regulations (Note 7)		0	0	0	0	0	0	0	0	0
	(11,112)	0	0	0	(4,400)	0	946	(14,566)	14,566	0
Net Increase/Decrease before Transfer to Earmarked Reserves	(11,454)	0	0	0	(4,400)	0	946	(14,908)	71,502	56,594
Transfers to/from Earmarked Reserves (Note 8)	4,012	(8,066)	4,054	0	0	0	0	0	0	0
Increase/Decrease in Year	(7,442)	(8,066)	4,054	0	(4,400)	0	946	(14,908)	71,502	56,594
Balance at 31 March 2012 carried forward	**(25,980)**	**(41,895)**	**0**	**0**	**(15,199)**	**0**	**(3,635)**	**(86,709)**	**(36,072)**	**(122,781)**

2. Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2010/11 Gross Exp Restated £000	2010/11 Gross Income Restated £000	2010/11 Net Exp Restated £000		2011/12 Gross Exp £000	2011/12 Gross Income £000	2011/12 Net Exp £000
			Continuing Operations			
21,992	(17,881)	4,111	Central services to the public	21,861	(17,007)	4,854
12,339	(2,142)	10,197	Cultural and Related Services	16,458	(2,531)	13,927
27,663	(3,942)	23,721	Environmental & Regulatory Services	25,499	(4,889)	20,610
5,585	(2,876)	2,709	Planning Services	4,913	(2,552)	2,361
192,717	(151,857)	40,860	Education and children's services	212,342	(157,558)	54,784
23,155	(10,224)	12,931	Highways and transport services	26,232	(11,691)	14,541
86,595	(78,962)	7,633	Other housing services	87,474	(84,530)	2,944
68,908	(23,688)	45,220	Adult social care	75,830	(25,610)	50,220
6,651	(1)	6,650	Corporate and Democratic Core	4,995	0	4,995
(43,518)	0	(43,518)	Non distributed costs - change in inflation factor for retirement benefits	0	0	0
5,448	(3,696)	1,752	Non distributed costs - Other	6,849	(3,069)	3,780
407,535	**(295,269)**	**112,266**	**Cost of services**	**482,453**	**(309,437)**	**173,016**
		1,678	Other Operating Expenditure (Note 9)			(3,968)
		4,751	Financing and investment income and expenditure (Note 10, Note 14)			13,386
870	(268)	602	Surplus or deficit of discontinued operations (HRA)			0
		(177,559)	Taxation and non-specific grant income (Note 11)			(182,776)
		(58,262)	**(Surplus) or Deficit on Provision of Services**			**(342)**
		(2,019)	(Surplus) or deficit on revaluation of Property, Plant and equipment			(32,091)
		(101,877)	Actuarial (gains)/losses on pension assets/liabilities			89,027
		(103,896)	**Other Comprehensive Income and Expenditure**			**56,936**
		(162,158)	**Total Comprehensive Income and Expenditure**			**56,594**

3. Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are Usable Reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

31st March 2010 Restated £000	31st March 2011 Restated £000		Notes	31st March 2012 £000
347,401	365,789	Property, Plant & Equipment	12	382,501
0	669	Heritage Assets	13	669
37,804	44,987	Investment Property	14	46,973
1,510	1,618	Intangible Assets	15	1,682
0	231	Assets Held for Sale	21	231
0	0	Long Term Investments	16	0
4,989	4,636	Long Term Debtors	19	4,667
391,704	**417,930**	**Long Term Assets**		**436,723**
69,674	66,570	Short Term Investments	16	57,349
0	0	Assets Held for Sale	21	0
118	183	Inventories	17	181
24,637	15,579	Short Term Debtors	19	27,095
22,387	36,345	Cash and Cash Equivalents	20	21,019
116,816	**118,677**	**Current Assets**		**105,644**
(1,936)	(556)	Cash and Cash Equivalents	20	0
(1,775)	(35,863)	Short Term Borrowing	16	(9,700)
(57,487)	(44,343)	Short Term Creditors	22	(47,345)
0	0	Current Provisions	23	(1,594)
(61,198)	**(80,762)**	**Current Liabilities**		**(58,639)**
0	0	Long Term Creditors	16	0
(5,905)	(5,513)	Long Term Provisions	23	(5,398)
(131,100)	(116,977)	Long Term Borrowing	16	(116,976)
(41,877)	(39,463)	Other Long Term Liabilities	16	(38,081)
(242,400)	(102,991)	Pension Liability	48	(189,686)
(9,491)	(11,526)	Capital Grants Receipts in Advance	39	(10,806)
(430,773)	**(276,470)**	**Long Term Liabilities**		**(360,947)**
16,549	**179,375**	**Net Assets**		**122,781**
(61,970)	(71,801)	Usable Reserves	24	(86,709)
45,421	(107,574)	Unusable Reserves	25	(36,072)
(16,549)	**(179,375)**	**Total Reserves**		**(122,781)**

4. Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources, which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

2010/11 £000		2011/12 £000
(58,262)	Net (surplus) or deficit on the provision of services	(342)
24,322	Adjustments to net surplus or deficit on the provision of services for non cash movements (note 26.1)	(34,749)
23,712	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 27.1)	24,085
(10,228)	Net Cash flows from Operating Activities (note 26)	(11,006)
14,742	Investing Activities (note 27)	(5,810)
(19,853)	Financing Activities (note 28)	31,586
(15,339)	Net Increase or decrease in cash and cash equivalents	14,770
(20,451)	Cash and cash equivalents at the beginning of the reporting period	(35,789)
(35,790)	**Cash and cash equivalents at the end of the reporting period (Note 20)**	**(21,019)**

NOTES TO THE CORE FINANCIAL STATEMENTS (IFRS)

1. ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the authority's transactions for the 2011/12 financial year and its position at the year end of 31st March 2012. The authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the *Service Reporting Code of Practice 2011/12*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.
- Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the authority's cash management.

iv. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the authority's financial performance.

v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vi. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the Minimum Revenue Provision (MRP) in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Under statutory guidance from the Department for Communities and Local Government (DCLG), authorities are required to prepare an annual statement on their policy on making MRP. In the published accounts, assets are depreciated over appropriate periods. However, in the charge to the General Fund and consequently to the Council Tax payer, this depreciation is reversed out and substituted by an MRP charge on the authority's total long term debt. With effect from 1st April 2008 the charge to the General Fund for Prudential Borrowing is more closely aligned to the equivalent of the depreciation charge, rather than previously 4%. The statutory guidance distinguishes between capital expenditure financed by borrowing supported by the Government through the Revenue Support Grant and capital expenditure financed through unsupported (prudential) borrowing. For this latter type of capital expenditure the government allows three options. This authority currently uses the Asset Life Method – Equal Instalment method. The method generates a series of equal annual amounts over the estimated life of the asset. The estimated life of the asset will be that used by the authority for depreciation purposes. Where there is no depreciation equivalent, e.g. capitalisation of redundancy costs, there are national guidelines for the appropriate estimated life. The Equal Instalment method is a prudent approach to MRP, straightforward, understandable and closely aligned with the authority's approach to asset write-down. Depreciation is provided for on all fixed assets (other than land and investment properties) with a determinable finite life, and is calculated on a straight-line basis over the assets estimated useful economic life.

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits in lieu of salary (e.g. nursery vouchers, bicycles) where material for current employees and are recognised as an expense for services in the year in which employees render service to the authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the individual services, within the Cost of Services line in the Comprehensive Income and Expenditure Statement when the authority is demonstrably committed to the termination of the employment of an officer or group of officers or has made an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits
Employees of the authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pensions Scheme, administered by the London Borough of Merton.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the authority.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Education and Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme
The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the London Borough of Merton pension fund attributable to the authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality corporate bond [iBoxx AA rated over 15 Year Corporate Bond]).
- The assets of the London Borough of Merton pension fund attributable to the authority are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.
- The change in the net pensions liability is analysed into seven components:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and

Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the authority, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the London Borough of Merton pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits
The authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii. Events After Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Account is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the loans that the authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured carried at fair value.

x. Foreign Currency Translation

Where the authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31st March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the authority when there is reasonable assurance that:

- the authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Sums advanced as grants and contributions for which conditions have not been satisfied and are unlikely to be satisfied are carried in the Balance Sheet as creditors. Where conditions are not satisfied but are expected to be met, these are classified as Receipts in Advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grants have yet to be used to finance capital expenditure, they are posted to the Capital Grants Unapplied reserve. Where they have been applied, they are posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Business Improvement Districts
A Business Improvement District (BID) is a precisely defined area within the local authority’s boundaries within which the businesses have voted to invest collectively in local improvements to enhance their trading environment. The authority acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

xii. Heritage Assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the authority in pursuit of its overall objectives in relation to the maintenance of heritage. The majority of the authority’s heritage assets are held in the Civic Centre, with a number of paintings of minor value held in the authority's libraries around the borough. Heritage assets located within community assets (e.g. an historic building within a park) are accounted for separately from the community asset. Heritage assets are measured at valuation in accordance with FRS30 but where it is not possible to obtain a valuation at a cost which is commensurate with the benefit to the users of the financial statements, heritage assets are measured at historical cost (less any depreciation, amortisation and impairment). Depreciation or amortisation is not required on assets with indefinite lives.

xiii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the authority.

Internally generated assets are capitalised where it can be demonstrated that the project is technically feasible and is intended to be completed (with adequate resources being available) and the authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase. Research expenditure cannot be capitalised.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiv. Interest in Companies and Other Entities

The authority has reviewed its relationships with companies and external organisations and followed the Code guidelines and determined that it has no material subsidiary or associated organisation, which would require either part or complete consolidation into the Statement of Accounts.

xv. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at cost for new equipment and at Net Realisable Value for reused stock. Net Realisable Value is estimated at 50% of the catalogue price.

xvi. Investment Property

Investment properties are those that are used solely to earn rents and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arms length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rents received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xvii. Jointly Controlled Operations and Jointly Controlled Assets

The authority undertakes jointly controlled operations in conjunction with other bodies. Under these jointly controlled operations, each body uses its own property, plant and equipment and carries its own inventories. These operations do not involve the setting up of an entity or structure that is separate from the individual bodies in the jointly controlled operation. These arrangements are set out below :-

Shared Human Resources Service: This is a cost sharing arrangement with the London Borough of Sutton which administers the service and recharges the authority. This recharged cost is accounted for in the Comprehensive Income and Expenditure Account where it is treated as a rechargeable overhead.

South London Waste Partnership (SLWP) : The SLWP is a joint venture with the London Borough of Kingston for the collection and disposal of waste. LB Kingston recharges the authority for its share of the cost and this is accounted for as part of the Cultural, Environmental and Planning Service in the Comprehensive Income and Expenditure Account. The SLWP is managed by a joint committee of officers which cannot contract on its own behalf but must do so through one of the participating boroughs.

Shared Legal Services : This is a cost sharing arrangement with the London Borough of Richmond which started in 2011/12. The London Borough of Merton administers the service and recharges London Borough Richmond with their share of the cost.

Pooled Budget: This is a cost sharing arrangement with the Merton and Sutton PCT. The authority's contribution is accounted for in the Adult Social Care line in the Comprehensive Income and Expenditure Account. The Balance Sheet contains the value of the pooled aids and adaptations stock.

Greenwich Leisure Limited (GLL): The authority pays GLL to run its leisure centres but retains ownership of those assets. The contribution to GLL is accounted for in the Cultural and Related Services line in the Comprehensive Income and Expenditure Account and the assets are held in the Balance Sheet.
The authority has no control over the strategic, financial or operating decisions of the entity.

NewSchools: This company is the authority's PFI provider for its schools' PFI project. This authority pays an annual unitary payment to NewSchools and this is recorded in the Children's and Education Services line in the Comprehensive Income and Expenditure Account (as payment for services) and in Financing and Investment Income and Expenditure (as payment for loans taken out by Newschools to finance the building of the schools under the scheme). The arrangement with NewSchools is purely contractual.

xviii. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.
Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.
Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

Property, Plant and Equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the authority are added to the carrying amount of the asset. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between :

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The authority is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor
Finance Leases
Where the authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:
- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xix. Overhead and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Code of Practice 2011/12* (SerCOP). The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the authority's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

xx. Plant, Property and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment (PP&E).

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred.

De Minimis

Capital expenditure of under £1,000 is charged directly to the Comprehensive Income and Expenditure account.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The authority does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of fair value.
Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment
Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Revaluations
The revaluations of the authority's properties, which have been performed during the financial year, were carried out by an internal valuer who was a member of the Royal Institution of Chartered Surveyors.

Assets regarded by the authority as operational were valued on the basis of Existing Use Value – EUV or, where this could not be assessed because there was no market for the subject asset, by the Depreciated Replacement Cost method – DRC, subject to the prospect and viability of the occupation and use.

Parks, allotments, cemetery land and crematorium land, which are non-operational are classified as Community Assets. They do not require valuation but are recorded at historical cost.

Assets regarded by the authority as non-operational such as Assets held for sale and investment properties were valued on the basis of fair value as defined by The International Valuation Standard Council. Assumptions for fair value are similar if not identical to market value. Fair value represents the price that would be reasonably agreed between two specific parties for the exchange of an asset. Although the parties may be unconnected and negotiating at arm's length, the asset is not neccesarily exposed in the wider market. In addition, the price agreed may be one that reflects the specific advantages (or disadvantages) of ownership to the parties involved rather than the market at large.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation
Depreciation is provided for on all fixed assets (other than land) with a determinable finite life, and is calculated on a straight-line basis over the asset's estimated useful economic life.

Deprecation is calculated on the following bases:
- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation
Componentisation is a method, used for accounting and financial reporting purposes, to ensure assets are accurately included on the Balance Sheet and that the consumption of economic benefit of these assets is accurately reflected over their individual useful lives through depreciation charges.

The Code of Practice on Local authority Accounting in the United Kingdom 2011/12 requires the separate recognition of two or more significant components of an asset for depreciation purposes – i.e. as if each component was a separate asset in its own right.

The authority will follow these requirements where significant components of material items of assets have been identified.

A component is defined as such part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item, if the value of the component is 5% or more of the total gross carry value of the building.

Even if the cost of a component is significant in relation to the total cost of an item of PP&E, from an accounting perspective, it is not necessary to identify the value of that component if its useful life and required method of depreciation is in line with the overall asset.

Where there are a number of parts of the same asset which have the same useful life and depreciation method, such parts will be grouped in determining the depreciation charge.

Componentisation has not been applied retrospectively and will be considered only for new revaluations carried out after 1st April 2010 and when enhancement and/or acquisition expenditure is incurred after that date.

Component accounting will only be considered and applied in cases where the omission to recognise and depreciate a separate component may result in material differences in the statement of accounts.

Componentisation will not be applied to items of PP&E where the depreciation of the item as a single asset is unlikely to result in a material misstatement of either the depreciation charges or the carrying amount of the PP&E.

The authority recognises two primary components of a property asset which will be accounted for separately namely:
- Land, and
- Buildings

Componentisation is not applicable to land as land is non-depreciable and is considered to have infinite life.

The authority also recognises three secondary components of the buildings primary component; namely:
- Structure (including the building sub-elements of substructure, superstructure, finishes, sanitary-wares, disposal installation, but excluding fittings and furnishings)
- Services (including sub-elements of mechanical and electrical services installation such as plant and lifts)
- External Work (including sub-elements of hard landscaping, but excluding playground equipment and soft landscaping)
- In addition, there may be cases where the Valuer feels a particular asset contains unusual components that are deemed material. In these instances specific components would be created specifically for that asset.

On the grounds of materiality, the authority has determined that any building with a gross carry amount of less than £1,000,000 will not be recognised as having secondary components of the building.

At revaluation the basis for componentisation is fair value (EUV) for the relevant asset class.

Where a component is replaced or restored (i.e. enhancement), the carrying amount of the old component shall be derecognised before reflecting the enhancement (applicable from 1st April 2010). In respect of property, on grounds of materiality and practicality, this is applied where the new part of the component is greater than £100,000 or, in the case of lesser amounts, where the existing component is specifically identifiable. In respect of all infrastructure expenditure, the equivalent depreciated carrying amount is derecognised.

Disposables and Non-Current Assets Held for Sale
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this carrying amount and the fair value less costs of sale, or receoverable amount. Where there is a subsequent decrease in fair value less costs of sale, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying ore receoverable amount. The carrying amount used is that before the assets were classified as held for sale adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale. The recoverable amount of the asset is at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are credited to the Capital Receipts Reserve, and can only be used for new capital investment to fund debt redemption premiums (or set aside to reduce the authority’s underlying need to borrow (the capital financing requirement)). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xxi. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor. As the authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the Property, Plant and Equipment will pass to the authority at the end of the contracts for no additional charge, the authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the Property, Plant and Equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Schools PFI scheme, the liability was written down by an initial capital contribution of £8.740 million.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost - an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- lifecycle replacement costs – a proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

xxii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

1. Insurance Fund

The Insurance Fund provides an integral part of our risk management policy to meet claims excluding catastrophic losses, which are insured by an external provider. The level of the fund is based upon a statistical assessment of claims information. The authority makes provision for its legal obligations for claims as at the 31st March each year. Where there is a possibility of further claims for which at this stage the authority is not legally obligated, on grounds of prudence the authority sets aside further sums in an separate Insurance Reserve. The expected timing of a future transfer of economic benefit depends upon the settlement of claims and no assumption has been made in respect of these.

Contingent Liabilities

These are possible liabilities as a result of a past event that will only materialise as a result of an uncertain future event. The authority's policy is to disclose as a contingent liability those that meet this criteria.

Contingent Assets

These are possible assets as a result of a past event that will only materialise as a result of an uncertain future event. The authority's policy is to disclose as a contingent asset those that meet this criteria.

xxiii. Reserves

The authority sets aside specific amounts as usable reserves for future policy purposes or to cover contingencies. These reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure from a Usable Reserve is incurred it is charged to the appropriate service in that year and forms part of the Surplus or Deficit in the CIES. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge to Council Tax for the expenditure.

The authority has a protocol for setting up and managing usable reserves. Under this protocol usable revenue reserves require the approval of the Director of Corporate Services.

Unusable Reserves are kept to manage accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the authority.

xxiv. Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income & Expenditure Statement in the year. Where the authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

xxv. VAT

Income and expenditure are shown net of VAT. VAT is included in the Comprehensive Income and Expenditure account only where it is irrecoverable.

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

A draft FRED (Financial Reporting Exposure Draft) has been issued for consultation regarding amendments to IFRS 7 Financial Instruments: Disclosures (Transfers of financial assets). This is likely to come in to effect in 2012/13.

The amendments to IFRS 7 require additional disclosures to evaluate risk exposures where local authorities have transferred financial assets.

This would arise where a local authority holds a financial asset (e.g. investment) and retains substantially all of the risks and rewards of holding that financial asset but contracts to pay over the cash flows generated by the instrument to another party.

The authority has not transferred any financial assets in 2011/12 and has no plans to do so in 2012/13.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying certain polices set out in Note 1, the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- It is expected that future levels of funding will be reduced however this is not expected to influence the authority's ability as a going concern.
- The authority's relationships with other bodies does not fall within the scope of group accounts.
- Apart from those already declared there are no further service concessions.
- The potential outcomes from legal claims are not expected to be material to the authority's accounts.
- As part of the voluntary stock transfer agreement, which was reached with Merton Priory Homes (MPH) in March 2010, VAT that can be reclaimed from HM Revenue and Customs in respect of specific qualifying works is shared. This arrangement is unique to Authorities and registered social landlords upon transfer. The authority’s share of reclaimable VAT amounted to £5.214m in 2011/12 and according to MPH’s latest forecast, could amount to a further £23m over the next thirteen years. The authority accounts for the income as it becomes due in accordance with VAT returns submitted by MPH.
- The authority has agreed to share any proceeds of former house sales if they are subsequently sold by Merton Priory Homes. The agreement lasts until 31 March 2040 and the amount received will depend on the number of sales each year. The authority’s share of the proceeds for each sale is treated as a capital receipt in the year that the property is sold.
- The authority has given a number of warranties to Merton Priory Homes and Circle Anglia Treasury, the Prudential Trustee Company Ltd and others in conjunction with the stock transfer. The warranties relate to statements, title, encumbrances, planning matters, statutory obligations, adverse orders, tenancies, information and statistics supplied, sales off, disputes and litigation, rights of entry to maintain and repair, environmental, vires, absence of adverse

replies, leases, way leaves, telecommunications equipment, sub stations and gas inspections. In addition, warranties have been given in respect of liabilities for remedial works to deal with asbestos in excess of £6m and not exceeding £120m up to 2038 and for public liabilities in relation to exposure to asbestos up to 2050 with no financial limit. The authority has set aside a prudent level of resources in case it is required to pay out under those warranties.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the London Borough of Merton about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the London Borough of Merton's Balance Sheet at 31st March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item:
Employee Benefit Accrual

Uncertainty:
In calculating the cost of untaken leave by employees for the year ending 31 March 2012, the authority has used sampling to ascertain the level of untaken annual leave, flexi time and time off in lieu. An estimated cost of £3.7m has been charged to services in 2011/12 based on the figures derived from the sampling exercise.

Effect if result differs from assumption:
If the result of the sampling exercise differed from the actual then it is likely that the authority would have over/under accrued for the cost of untaken leave. However as it is reversed out and charged to the Accumulated Absence Reserve there is no charge to the General fund.

Item:
Property, Plant and Equipment

Uncertainty:
Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate and funding position may have an impact on the levels of spending on repairs and maintenance, thus impacting on the useful lives assigned to assets.

Effect if actual result differs from assumptions:
If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.

Item:
Investment Assets

Uncertainty:
The valuation of Investment Assets has in many cases been based upon indexation owing to the impracticality of valuing each asset in the time available.

Effect if actual result differs from assumptions:
An increase or decrease in the value of Investment Assets would increase or decrease the Capital Adjustment Account.

Item:
Provisions

Uncertainty:
The authority has made provisions of £4.7m for insurance claims. The fund is used to pay claims for which the authority is self insured. The level of the fund is calculated by a firm of actuaries and is based on a number of assumptions. The current funding climate for local authorities raises the risk of cut backs on repairs and maintenance works, which could lead to greater incidence of claims against the authority.

Effect if actual result differs from assumptions:
If the actuals differ from the assumptions then it is possible that the Insurance Fund would be insufficient to cover the liabilities of the authority and further demands would be made on the General Fund.

Item:
Pension Liability

Uncertainty:
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the authority with expert advice about the assumptions to be applied.

Effect if actual result differs from assumptions:
The assumptions interact in complex ways and changes in assumptions cannot be easily measured.

Item:
Fair Value Adjustments

Uncertainty:
In line with FRS25 and IFRS7 on Financial Instruments, the authority has calculated the fair value of its borrowing portfolio. The calculation of fair value involves

estimating the premium payable on each loan if it were redeemed at year-end, and adding this to the outstanding principal.

Effect if actual result differs from assumptions:
All loans are at fixed rates and do not include derivatives, to which the authority is directly exposed. For other market debt, the discount rate used is the published PWLB rate for an instrument with the same maturity period. If the discount rates were different to the assumptions, the cost of redeeming the loans will change.

5. MATERIAL ITEMS OF INCOME AND EXPENSE

Other than that disclosed on the face of the Comprehensive Income and Expenditure Statement, there were no material items of Income and Expenses.

6. EVENTS AFTER BALANCE SHEET DATE

Merton Priory Homes

Events after the balance sheet date have been considered up to 14 June 2012. As a result of continuing negotiations with Merton Priory Homes, a registered social landlord (RSL), the authority has provisionally agreed to sell debts to MPH. The agreement has not yet been signed and impairment provision for the full amount has been included in the accounts. The debts relate to service charges to leaseholders for major works. In total, the Council expects to receive £0.74m as settlement for all outstanding service charge debt.

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

The following tables detail the adjustments that are made to the total comprehensive income and expenditure recognised by the authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure.

2011/12

	Usable Reserves			
	General Fund Balance £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation and impairment of non current assets	(13,279)			13,279
Revaluation losses on Property Plant and Equipment	(27,999)			27,999
Movements in the market value of Investment Properties	(1,086)			1,086
Amortisation of intangible assets	(434)			434
Capital grants and contributions applied				
Movements in the Donated Assets Account				
Revenue expenditure funded from capital under statute	(7,288)			7,288
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(5,854)			5,854
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	8,227			(8,227)
Capital expenditure charged against the General Fund and HRA balances	576			(576)
Revaluation gains charged direct to Revaluation Reserve				
Adjustments primarily involving the Capital Grant Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	28,229		(28,229)	
Application of grants to capital financing transferred to the Capital Adjustment Account			29,175	(29,175)
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	10,710	(10,710)		

	Usable Reserves			
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
Use of the Capital Receipts Reserve to finance new capital expenditure		0		0
Use of Capital Receipts Reserve to finance debt premium	(6,214)	6,214		
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	(102)	102		
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		(6)		6
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(85)			85
Adjustment involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0			0
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 25)	(12,277)			12,277
Employer's pensions contributions and direct payments to pensioners payable in the year	14,609			(14,609)
Adjustments involving the Collection Fund Adjustments Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	582			(582)
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	573			(573)

	Usable Reserves			
	General Fund Balance £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Total Adjustments	**(11,112)**	**(4,400)**	**946**	**14,566**

2010/11 Comparative Figures

	Usable Reserves			
	General Fund Balance £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustement Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	(14,583)			14,583
Revaluation losses on Property Plant and Equipment	(1,572)			1,572
Movements in the market value of Investment Properties	8,008			(8,008)
Amortisation of intangible assets	(345)			345
Capital grants and contributions applied				0
Movements in the Donated Assets Account				0
Revenue expenditure funded from capital under statute	(7,756)			7,756
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(6,142)			6,142
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	7,834			(7,834)
Capital expenditure charged against the General Fund and HRA balances	2,453			(2,453)
Revaluation gains charged direct ro Revaluation Reserve				
Adjustments primarily involving the Capital Grant Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	16,037		(16,037)	0
Application of grants to capital financing transferred to the Capital Adjustment Account			23,694	(23,694)
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	5,539	(5,539)		0
Use of the Capital Receipts Reserve to finance new capital expenditure		29		(29)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	(95)	95		0

	Usable Reserves			
	General Fund Balance £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receitpts pool	(67)	67		
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		(7)		7
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(285)			285
Adjustment involving the Financial Instruments Adjustment Account:				
Amount by w hich finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance w ith statutory requirements				0
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 25)	23,138			(23,138)
Employer's pensions contributions and direct payments to pensioners payable in the year	14,394			(14,394)
Adjustments involving the Collection Fund Adjustments Account:				
Amount by w hich council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance w ith statutory requirements	(429)			429
Adjustment involving the Accumulated Absences Account				
Amount by w hich officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance w ith statutory requirements				0
Total Adjustments	**46,129**	**(5,355)**	**7,657**	**(48,431)**

8. TRANSFERS TO/ FROM EARMARKED RESERVES

	Balance at 1 April 2010 £000	Transfers out 2010 / 2011 £000	Transfers in 2010 / 2011 £000	Balance at 31 March 2011 £000	Transfers out 2011/2012 £000	Transfers in 2011/2012 £000	Balance at 31 March 2012 £000
General Fund:							
Balances held by schools under a scheme of delegation	6,111	0	1,915	8,026	(240)	4,219	12,005
General Fund Balances (including HRA balance)	15,305	(739)	0	14,566	(5,199)	4,608	13,975
Earmarked reserves	22,872	(1,978)	12,936	33,830	(14,231)	22,296	41,895
Total	**44,288**	**(2,717)**	**14,851**	**56,422**	**(19,670)**	**31,123**	**67,875**

Reserve	31st March 2010 £000	Net Transfer to/from Reserve £000	31st March 2011 £000	Net Transfer to/from £000	31st March 2012 £000
Outstanding Council Programme Board Reserve	3,459	1,782	5,241	2,462	7,703
Revenue Reserve for Capital / Revenuisation	2,453	1,822	4,275	2,016	6,291
Schools PFI Fund	4,138	541	4,679	482	5,161
Insurance Fund	2,785	0	2,785	(463)	2,322
Closing the budget gap reserve	0	0	0	2,052	2,052
Repairs and Renew als Fund	0	0	0	2,000	2,000
DSG Reserve	617	1,880	2,497	(787)	1,710
Performance Rew ard Grant	0	1,192	1,192	464	1,656
Apprenticeships Reserve	0	0	0	1,500	1,500
Pensions Fund Early Retirement	0	0	0	1,250	1,250
Community Care Reserve	576	420	996	0	996
Renew able Energy Measures	0	0	0	841	841
Local Land Charges Reserve	102	307	409	441	850
LABGI Reserve	863	(286)	577	(17)	560
Schools Reserve	573	(17)	556	(41)	515
Corporate Services Reserve	26	6	32	399	431
Merton Business Investment Fund	339	0	339	0	339
Waste and Recyling Reserve	225	0	225	0	225
ICES Reserve	0	200	200	0	200
E & R Partnerships	195	0	195	0	195
Wimbledon Tennis Courts Renew al Fund	75	25	100	25	125
VAT Reserve	1,752	(1,000)	752	(724)	28
Budget Gap Funding 2011/12	0	4,282	4,282	(4,282)	0
Chief Executive's Reserve	138	(92)	46	(46)	0
Schools' Single Status	304	0	304	(304)	0
Facilities Reserve	170	1	171	(171)	0
Sixth Form Reserve	531	(402)	129	(129)	0
Section 117	100	0	100	(100)	0
Other earmarked reserves	325	(187)	138	5	143
Grants	3,126	483	3,609	1,193	4,802
Total	**22,872**	**10,957**	**33,829**	**8,066**	**41,895**

9. OTHER OPERATING EXPENDITURE

2010/2011 £000		2011/2012 £000
0	Parish council precepts	0
915	Levies	888
67	Payments to the Government Housing Capital Receipts Pool	0
696	Gains/ losses on the disposal of non-current assets	(4,856)
1,678	**Total**	**(3,968)**

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2010/2011 £000		2011/2012 £000
11,533	Interest payable and similar charges	16,425
4,551	Pensions interest cost and expected return on pensions assets	556
(1,350)	Interest receivable and similar income	(1,940)
(9,771)	Income and expenditure in relation to investment properties and changes in their fair value	(666)
(212)	Other investment income- trading accounts not related to services	(989)
4,751	**Total**	**13,386**

11. TAXATION AND NON-SPECIFIC GRANT INCOMES

2010/2011 £000		2011/2012 £000
(84,075)	Council tax income	(84,865)
(59,145)	Non domestic rates	(50,888)
(24,688)	Non-ringfenced government grants	(23,196)
(9,651)	Capital grants and contributions	(23,827)
(177,559)	**Total**	**(182,776)**

12. PROPERTY, PLANT AND EQUIPMENT

Movements on Balances

Depreciation
The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Other Land and Buildings 20 - 50 years
- Vehicles, Plant, Furniture & Equipment 5 - 10 years
- Infrastructure 25 years

Amortisation
Intangible Assets are amortised over 5 years

Capital Commitments

The authority is undertaking a major expansion of primary schools within the borough. The cost of this programme over the next few years is approximately £56m. The schemes that have been recognised as Assets under Construction at 31 March 2012 have commitments in 2012/13 onwards of approximately £24m.

Effects of Changes in Estimates

There are no material changes to the basis of estimation.

Prior Period Adjustment – Land

The correction to the opening balance of Other Land and Buildings is a Prior Period Adjustment that relates to the valuation of land. The valuation of the authority's properties are reviewed and adjusted if necessary every year. Every five years (quinquennially) the properties are subject to individual in-depth valuations. The in-depth valuations carried out for 2011/12 has identified that some of the properties valued in the previous quinquennial valuation in 2006/07 had the value of their land overstated. The prior period adjustments reverse the original excess valuation whch took place in 2006/07.The amount of the prior period adjustment and the accounting entries are set out below:

	2009/10 £000	2010/2011 £000	Total Re-statement
Property Plant and Equipment Other land and Buildings	(62,490)		(62,490)
Revaluation Reserve		2,058	2,058
Capital Adjustment Account	62,490	(2,058)	(60,432)

Prior Period Adjustment – Heritage Assets

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 requires the authority to change its accounting policy for heritage assets and recognise them at valuation. The 1 31 March 2011 Balance Sheet has thus been restated. The amount of the prior period adjustment and the accounting entries are set out below:

	2010/11
	£000
Long Term Assets - Heritage Assets	669
Capital Adjustment Account	(669)

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2011	256,841	17,381	125,471	0	4,800	17,487	421,980	70,818
Additions	6,223	4,729	11,179	967	0	11,427	34,525	666
Revaluation increase/(decreases) recognised in the Revaluation Reserve	16,901	2	0	0	0	0	16,903	(771)
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(26,799)	0	0	(967)	(233)	0	(27,999)	(5,702)
Derecognition - Disposals	0	(1,073)	0	0	(2,567)	0	(3,640)	0
Derecognition - Other	(1,194)	0	0	0	0	0	(1,194)	0
Recognition	0	4	0	0	0	0	4	0
Completed assets under construction	10,370	0	0	0	0	(10,370)	0	0
To Investment Properties	(549)	0	0	0	0	0	(549)	0
At 31 March 2012	261,792	21,043	136,650	0	2,000	18,545	440,030	65,012
Accumulated Depreciation and Impairment								
At 1 April 2011	11,052	5,501	39,638	0	0	0	56,191	3,031
Depreciation Charge	5,073	3,270	4,936	0	0	0	13,279	1,288
Depreciation written out to the Revaluation Reserve	(10,817)	0	0	0	0	0	(10,817)	(3,031)
Depreciation written out to the Surplus/Deficit on the Provision of Services							0	
Impairment losses/(reversals) recognised in the Revaluation Reserve							0	
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services							0	
Derecognition - Disposals	0	(991)	0	0	0	0	(991)	0
Derecognition - Other	(123)	0	0	0	0	0	(123)	0
Other changes	(10)	0	0	0	0	0	(10)	0
At 31 March 2012	5,175	7,780	44,574	0	0	0	57,529	1,288
Net Book Value								
At 31 March 2012	**256,617**	**13,263**	**92,076**	**0**	**2,000**	**18,545**	**382,501**	**63,724**
At 31 March 2011	**306,221**	**11,880**	**85,833**	**0**	**4,800**	**17,487**	**426,221**	**67,787**

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2010 as previously stated	308,857	16,090	117,815	-	7,600	4,519	454,881	64,220
Correction	(60,432)	0	0	0	0	0	(60,432)	0
At 1 April 2010 as restated	248,425	16,090	117,815	0	7,600	4,519	394,449	64,220
Additions	12,050	4,644	7,656	762	231	12,968	38,311	6,598
Donations	-	-	-	-	-	-	-	-
Revaluation increase/(decreases) recognised in the Revaluation Reserve	(157)	2	0	0	0	0	(155)	0
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(810)	0	0	(762)	0	0	(1,572)	0
Derecognition - Disposals	(1,018)	(3,355)	0	0	(2,800)	0	(7,173)	0
Derecognition - Other	(1,649)	0	0	0	0	0	(1,649)	0
Assets reclassified (to)/from held for Sale	0	0	0	0	(231)	0	(231)	0
Other movements in Cost or Valuation	-	-	-	-	-	-	-	-
At 31 March 2011	256,841	17,381	125,471	-	4,800	17,487	421,980	70,818
Accumulated Depreciation and Impairment								
At 1 April 2010	4,127	5,863	35,008	0	0	0	44,998	993
Depreciation Charge	7,206	2,747	4,630	0	0	0	14,583	2,038
Depreciation w ritten out to the Revaluation Reserve	(114)	0	0	0	0		(114)	0
Depreciation w ritten out to the Surplus/Defic on the Provision of Services	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
Derecognition - Disposals	0	(3,109)	0	0	0		(3,109)	0
Derecognition - Other	(167)	0	0	0	0	0	(167)	0
Other movements in Deprecation and Impairment	0	0	0	0	0	0	0	0
At 31 March 2011	11,052	5,501	39,638	0	0	0	56,191	3,031
Net Book Value								
At 31 March 2011	**245,789**	**11,880**	**85,833**	**-**	**4,800**	**17,487**	**365,789**	**67,787**
At 31 March 2010	304,730	10,228	82,807	-	7,600	4,519	409,891	63,226

Revaluations

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total £000
Carried at Historical Cost	0	0	92,076	0	0	13,517	105,593
Valued at Fair Value:							
31 March 2008	3,124	860	0	0	0	0	3,984
31 March 2009	0	1,434	0	0	0	0	1,434
31 March 2010	3,587	1,850	0	0	0	0	5,437
31 March 2011	901	4,389	0	0	0	0	5,290
31 March 2012	254,034	4,729	0	0	2,000	0	260,763
Total cost or Valuation	**261,646**	**13,262**	**92,076**	**0**	**2,000**	**13,517**	**382,501**

13. HERITAGE ASSETS

The authority's collection of Heritage Assets consists of a mixture of Regalia and Art. Much of the art is on display within the Civic Centre and Libraries. The Regalia is not generally accessible other than when in use and the higher value items are stored securely. All of these Heritage Assets are held on the Balance Sheet at insurance value, which is based on market values. The valuations were carried out during 2011/12 by appropriately qualified external valuers who specialise in Fine Art and Jewellery.
There are 4 items within the Art collection and 6 items within the Regalia with a valuation of £20,000 or above. The highest value item is the Chain of Office of the Mayor of the former Borough of Wimbledon, which has been valued at £84,000.

The following table contains reconciliation of the carrying value of Heritage Assets Held by the authority

	Civic £000	Art Collection £000	Regalia & Ceremonial £000	Total Assets £000
Cost or Valuation				
1 April 2010	0	197	472	669
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment Losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Service	0	0	0	0
Depreciation	0	0	0	0
31 March 2011	0	**197**	**472**	**669**
1 April 2011	0	197	472	669
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment Losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Service	0	0	0	0
Depreciation	0	0	0	0
31 March 2012	0	**197**	**472**	**669**

It is not practicable to provide the above analysis of information for any period before 1 April 2010.

14. INVESTMENT PROPERTIES

All of the revaluations of investment assets were carried out by an internally employed valuer who has in excess of 10 years experience working in the local area and in the category of assets valued. The valuer is a Member of RICS (the Royal Institution of Chartered Surveyors) and registered on the RICS Valuer Registration Scheme and as such has an overriding obligation to RICS including their professional standards on independence.
There are no restrictions on the authority's ability to realise the value inherent in its investment property or on the authority's right to the remittance of income and the proceeds of disposal. The authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

Table 1 summarises the movement in the fair value of investment properties over the year. Income and expenditure for investment properities have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (see Note 10) and is summarised in Table 2.

Table 1 Movement in the fair value of investment properties

	2010/2011 £000	2011/2012 £000
Rental income from investment property	(2,713)	(3,017)
Direct operating expenses arising from investment property	950	1,265
Net (gain)/ loss	(1,763)	(1,752)
The movement in the fair value of investment properties over the year:		
Balance at start of the year	37,804	44,987
Additions:		
Purchases	0	0
Construction	0	0
Subsequent expenditure	7	25
Disposals	(839)	(2,139)
Recognition	0	4,647
Net gains/ (losses) from fair value adjustments	8,008	(1,086)
Transfers:		
To/ from inventories	0	0
To/ from Property, Plant and Equipment	0	539
Other changes	7	0
Balance at end of the year	**44,987**	**46,973**

Table 2 Income and Expenditure investment properties

	2010/2011 £000	2011/2012 £000
Net (gain)/loss operating activities	(1,763)	(1,752)
Less: net gains/(losses) from fair value adjustments	(8,008)	1,086
Total (Income)/Expenditure (See Note 10)	(9,771)	(666)

15. INTANGIBLE ASSETS

The London Borough of Merton accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the London Borough of Merton. The useful lives assigned to the major software suites used by the London Borough of Merton is 5 years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.434m charged to revenue in 2011/2012 (£0.345m in 2010/11) was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

	2010/2011		2011/2012	
	Other Assets	Total	Other Assets	Total
	£000	£000	£000	£000
Balance at start of year:				
Gross carrying amounts	2,505	2,505	2,172	2,172
Accumulated amortisation	(995)	(995)	(554)	(554)
Net carrying amount at start of year	**1,510**	**1,510**	**1,618**	**1,618**
Additions:	0	0	0	0
Internal development	0	0	0	0
Purchases	453	453	498	498
Acquired through business combinations	0	0	0	0
Assets reclassified as held for sale	0	0	0	0
Other disposals	0	0	0	0
Revaluations increases or decreases	0	0	0	0
Impairment losses recognised or reversed	0	0	0	0
directly in Revaluation Reserve				
	0	0	0	0
Impairment losses recognised in the Surplus/				
Deficit on the Provision of Services	0	0	0	0
Reversals of past impairment losses written back to the Surplus/ Deficit on the Provision of Services	0	0	0	0
Amortisation for the period	(345)	(345)	(434)	(434)
Other changes	0	0	0	0
Net carrying amount at end of year	**1,618**	**1,618**	**1,682**	**1,682**
Comprising:				
Gross carrying amounts	2,172	2,172	2,671	2,671
Accumulated amortisation	(554)	(554)	(989)	(989)
	1,618	**1,618**	**1,682**	**1,682**

16. FINANCIAL INSTRUMENTS

Financial Instruments are contractual arrangements for the transfer of cash and include all debtors and creditors arising other than from statutory requirements. They do not include debtors and creditors that arise through statutory requirements such as local taxes and government grants.

The authority is required to disclose the risks inherent in its usage of financial instruments in its treasury activities, their significance, and how they are managed (Note 51). The tables below show the location of financial instruments within the authority's accounts.

Categories of Financial Instruments

	Long-term		Current	
	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000	31 March 2011 Restated £000
Investments				
Loans and receivables	0	0	57,349	66,570
Available-for-sale financial assets	0	0	0	0
Unquoted equity investment at cost	0	0	0	0
Financial assets at fair value through profit and loss	0	0	0	0
Total investments	**0**	**0**	**57,349**	**66,570**
Debtors				
Loans and receivables	4,367	4,636	24,619	13,046
Financial assets carried at contract amount	0	0	0	0
Total debtors	**4,367**	**4,636**	**24,619**	**13,046**
Borrowings				
Financial liabilities at amortised cost	116,976	116,976	9,700	35,863
Financial liabilities at fair value through profit and los	0	0	0	0
Total borrowings	**116,976**	**116,976**	**9,700**	**35,863**
Other Long Term Liabilities				
PFI and Finance Lease Liabilities	38,081	39,463		
Total other long term liabilities	**38,081**	**39,463**		
Creditors				
Financial liabilities at amortised cost	0	0	39,678	31,261
Total creditors	**0**	**0**	**39,678**	**31,261**

The authority's policy is to undertake its treasury activities within the scope of the CIPFA Code of Practice for Treasury Management. The Annual Treasury Strategy, reported to cabinet and the authority is developed with recognition of treasury risks, and includes Prudential Indicator limits for the overall amount of borrowing. The term (maturity) and fixed/variable interest rate characteristics of borrowing and investment are also considered. The Treasury Strategy report also proposes for the authority's approval, criteria for the minimum creditworthiness required for investment counter parties.

Income, Expense, Gains and Losses

	2010/11					2011/12				
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and Receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at fair value through profit and loss £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and Receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at fair value through profit and loss £000	Total £000
Interest Expense	11,533	0	0	0	11,533	16,426	0	0	0	16,426
Losses on Derecognition	0	0	0	0	0	0	0	0	0	0
Reductions in Fair Value	0	0	0	0	0	0	0	0	0	0
Impairment Losses	0	0	0	0	0	0	0	0	0	0
Fee Expenses	0	0	0	0	0	0	0	0	0	0
Total Expenses in Surplus or Deficit on the Provision of Services	**11,533**	**0**	**0**	**0**	**11,533**	**16,426**	**0**	**0**	**0**	**16,426**
Interest Income	0	(1,350)	0	0	(1,350)	0	(1,940)	0	0	(1,940)
assets	0	0	0	0	0	0	0	0	0	0
Increase in fair values	0	0	0	0	0	0	0	0	0	0
Gains on derecognition	0	0	0	0	0	0	0	0	0	0
Fee Income	0	0	0	0	0	0	0	0	0	0
Total income in Surplus or Defecit on the Provision of Services	**0**	**(1,350)**	**0**	**0**	**(1,350)**	**0**	**(1,940)**	**0**	**0**	**(1,940)**
Gains on revaluation	0	0	0	0	0	0	0	0	0	0
Losses on revaluation	0	0	0	0	0	0	0	0	0	0
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	0	0	0	0	0	0	0	0	0	0
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net gain/loss for the year	**11,533**	**(1,350)**	**0**	**0**	**10,183**	**16,426**	**(1,940)**	**0**	**0**	**14,486**

Investments
Investments at 31st March 2012 are all short-term cash deposits, in compliance with the authority's Treasury Management Policy.

Investment Profile	31 March 2011 £000	31 March 2012 £000
Short term Investments and Cash Equivalents	86,000	57,000
Accrued Investment Income	569	349
Total	**86,569**	**57,349**

Investments - Movement in year	£000
Investments at 1 April 2011	**86,569**
Change in investment managed internally	(29,000)
Change in accrued investment income	(220)
Investment at 31 March 2012	**57,349**
Short term investment (book value)	57,349
Cash Equivalents (book value)	0

	Book Value £000	Market Value £000	Unrealised Profits/(Losses) £000
Managed Internally	57,000	57,000	0
Managed Externally	0	0	0
Total	**57,000**	**57,000**	**0**

Fair Value of Assets and Liabilities

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive than to secure a fair price.

In line with FRS25 and IFRS7 on Financial Instruments, the authority has calculated the fair value of its borrowing portfolio in the following table. The calculation of fair value involves estimating the premium payable on each loan if it were redeemed at year-end, and adding this to the outstanding principal. All loans are at fixed rates and do not include derivatives, to which the authority is directly exposed. The authority is not able to package its debt as a marketable security and no adjustment is required to the book value of these loans on the balance sheet.

The methods and assumptions used in the valuation technique were:

- For other market debt, Net Present Value (NPV) approach, which provides an estimate of the value of payments in the future in today's terms. The discount rate used in the NPV calculation is usually equal to the current rate in relation to the same instrument from a comparable lender and would be the rate applicable in the market on the date of valuation, for an instrument with the same duration date to maturity.

- For PWLB (Public Works Loan Body) debt, fair values as at 31 March 2012 published by PWLB have been used.

Borrowing at source - Fair Value	31 March 2011 £000	31 March 2012 £000
Public Works Loan Board	79,152	67,563
Money Market	81,987	81,605
Temporary Loan	20,100	8,007
Stock Loan	2,878	2,951
	184,117	**160,126**

Borrowing - Maturity Profile	31 March 2011 £000	31 March 2012 £000
Less than 1 year	34,224	8,063
Between 1 and 2 years	0	0
Between 2 and 5 years	0	0
Between 5 and 10 years	5,966	7,966
More than 10 years	111,010	109,010
Total over 1 year	**116,976**	116,976
Total Borrowings	**151,200**	**125,039**
Accrued Interest	1,639	1,637
	152,839	**126,676**

The Balance Sheet figures are based upon the maturity profile of borrowings.

17. INVENTORIES

The stock balance of £0.181m in 2011/12 (£0.183m in 2010/11) represents the complete stock relating to the Partnership Agreement with the Sutton and Merton Primary Care Trust (PCT) and Integrated Community Equipment Services (ICES).

	Comsumable Stores		Total	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
Balance outstanding at the start of the year	118	183	**118**	**183**
Purchases	363	451	**363**	**451**
Recognsed as an expense in the year	(298)	(453)	**(298)**	**(453)**
Balance outstanding at year-end	**183**	**181**	**183**	**181**

18. CONSTRUCTION CONTRACTS

The authority does not undertake any third party construction projects.

19. DEBTORS

31 March 2011 £000		31 March 2012 £000
	Long Term Debtors	
4,636	Financial Instruments - Loans & Receivables	4,367
0	Arising under statute - Other	300
4,636	**Total Long Term Debtors**	**4,667**
	Short Term Debtors	
3,447	Central government bodies	4,451
0	Other local authorities	358
9,599	Other entities and individuals	19,810
13,046		**24,619**
	Financial Instruments - Loans & Receivables	
1,376	Arising under statute - Local Taxes	1,545
1,157	Arising under statute - Other	931
2,533		**2,476**
15,579	**Total Short Term Debtors**	**27,095**

20. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2011 £000		31 March 2012 £000
(1,181)	Main bank account	(549)
625	Cash in transit (held by agents)	991
16,280	Cash advanced to schools	20,508
20,000	Cash equivalents	0
65	Cash advanced to establishments (Petty cash imprests)	69
35,789	**Total Cash and Cash Equivalents**	**21,019**

21. ASSETS HELD FOR SALE

	Non Current	
	2010/2011 £000	2011/2012 £000
Balance outstanding at start of year	**0**	**231**
Assets newly classified as held for sale:	0	0
Property, plant and equipment-Eastfields Road property to be sold to developer.	231	0
Balance outstanding at year end	**231**	**231**

There are no Current Assets Held For Sale.

22. CREDITORS

31 March 2011 £000		31 March 2012 £000
(641)	Other local authorities	(59)
(650)	NHS bodies	(662)
0	Public corporations and trading funds	0
(27,523)	Other entities and individuals	(37,675)
(2,359)	Grants and Contributions received in advance - Revenue	(1,025)
(88)	Grants and Contributions received in advance - Capital	(257)
(31,261)	**Financial Instruments - Liabilities at amortised cost**	**(39,678)**
	Creditors arising under statute	
(4,222)	Central Government Bodies	(717)
(8,860)	Other entities and individuals	(6,950)
(44,343)	**Total**	**(47,345)**

23. PROVISIONS

	Outstanding legal cases £000	Injury and damage compensation claims £000	Other provisions £000	Total £000
Balance at 1 April 2011	0	5,430	83	**5,513**
Additional provisions made in 2011/2012	0	1,613	1,752	**3,365**
Amounts used in 2011/2012	0	(1,877)	(9)	**(1,886)**
Unused amounts reserved in 2011/2012	0	0	0	**0**
Unwinding of discounting in 2011/2012	0	0	0	**0**
Balance at 31 March 2012	**0**	**5,166**	**1,826**	**6,992**

Outstanding Legal Cases

The authority is not involved in any legal cases other than those already disclosed as contingent liabilities.

Injury and Damage Compensation Claims:

- **Insurance Fund £4.703m**

  The authority in line with most other Authorities, self insures for claims up to a certain value. As part of this it maintains an Insurance Fund to cover claims. The authority tops up the fund at year end to maintain the fund within the recommended limits by the authority's actuaries.

- **MMI Provision £0.463m**

  Municipal Mutual Insurance (MMI), one of the Council's previous insurers ceased its underwriting operation in 1992 as it did not have sufficient solvency to trade as an insurance company. Most of MMI's public sector clients, including the authority, elected to participate in the "Scheme of Arrangements" which means that they may have to pay back part of all claims for which they have received settlement. A recent Supreme Court ruling makes it more probable than not that the Scheme of Arrangements will be triggered.

Other Provisions:

- **Social Services**

  Homecare £0.072m
  Provision of £0.072m is retained in respect of a disputed claim for the provision of homecare.

  Nursing Care £0.280m
  It has been identified that underpayments of Nursing Care Contributions, funded by the NHS, have been made to nursing home providers over a 3 year period. An additional provision of £0.28m has been made to meet the estimated underpayments.

- **Housing £0.343m**
  As part of the stock transfer agreement made on 22 March 2010, the authority paid £1.85m to Merton Priory Homes in order for them to complete the 2009/10 capital programme. Due to health and safety and various design issues, the cost of the programme increased by £0.24m. The work has been completed and provision of £0.343m has been made for final settlement of this and other outstanding housing contracts.

- **Single Status Provision £1.131m**
  Single Status is a national agreement reached in 1997 aimed at modernising pay and rewards in Local Government. The agreement covers the introduction of a single job evaluation (JE) scheme for all Council workers, a standardised working week and a pay and grading review which recognises equal pay for work of equal value. A further national implementation agreement was reached in 2004 under which local authorities would complete and implement local pay reviews. The total provision of £1.131m is for the estimated liability for the Park Rangers (£0.995m), Social Work Support Officer (£0.115m) and Brightwell staff (£0.021m).

Of the above provisions, only the provision for single status is classified as a current provision, expected to fall due within one year of the balance sheet date, the remainder of the provisions, total £5.398m are long-term provisions, expected to fall due more than one year after the balance sheet date (see Note 3)

Carbon Reduction Commitment Scheme
The 2011/12 financial year is the first year of the scheme. The retrospective purchase of allowances is anticipated to take place from 1 June 2012. The expenditure required to settle the obligation is estimated to be £0.12m for school buildings and £0.067m for civic buildings based on the authority's procedures for estimating CO2 emissions. The estimated value of these transactions is below the authority's policy of raising provisions at a minimum value of £0.25m and is therefore shown as a creditor (Note 22). It is anticipated that a provision will have to be made in 2012/13, however, as the cost of the scheme is set to rise significantly; recent announcements have indicated

that the current value of allowances is set to rise from £12 per tonne of emissions to £16 per tonne by 2016.

24. USABLE RESERVES

Movements in the authority's usable reserves are detailed in the Movement in Reserves Statement and Notes 7and 8.

25. UNUSABLE RESERVES

31 March 2011 Restated £000		31 March 2012 £000
(25,187)	Revaluation Reserve	(50,901)
(181,208)	Capital Adjustment Account	(169,625)
0	Financial Instruments Adjustment Account	0
102,991	Pensions Reserve	189,686
(4,243)	Deferred Capital Receipts Reserve	(4,152)
(4,272)	Collection Fund Adjustment Account	(4,853)
0	Unequal Pay Back Pay Account	0
4,346	Accumulated Absences Account	3,773
(107,573)	**Total Unusable Reserves**	**(36,072)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the London Borough of Merton arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1st April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2010/2011 Restated £000			2011/2012 £000
(8,695)	**Balance at 1 April**		(25,187)
0	Upward revaluation of assets	(39,254)	
0	Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services	11,533	
(2,018)	Surplus or deficit on revaluation of non-current assets not posted to to the Surplus or Deficit on the Provision of Services (note 12)		(27,721)
0	Difference between fair value depreciation and historical cost depreciation	925	
0	Accumulated gains on assets sold or scrapped	801	
(14,474)	Amount written off to the Capital Adjustment Account		1,726
0	Lease adjustment		281
(25,187)	**Balance at 31 March**		(50,901)

Capital Adjustment Account
The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the authority as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the authority. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

2010/2011 £000		2011/2012 £000	
(245,884)	**Balance at 1 April**		(181,208)
61,823	Prior Period Adjustment (Note 12)		
14,474	Amounts written out of the Revaluation Reserve		(1,726)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
14,583	Charges for depreciation and impairment of non-current assets	13,279	
1,572	Revaluation losses on Property, Plant and Equipment	27,999	
345	Amortisation of intangible assets	434	
7,757	Revenue expenditure funded from capital under statute (1)	7,287	
6,385	Amounts of non-current assets written off on disposal or sale as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	5,854	
(245)	Amount of leasing liability written off on disposal		
0	Recognition of existing assets (2)	(4,652)	
30,397			50,201
	Net written out amount of the cost of non-current assets consumed in the year		
	Capital financing applied in the year:		
(29)	Use of Capital Receipts Reserve to finance new capital expenditure		0
(23,694)	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account		(29,175)
(7,834)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances		(8,227)
(2,453)	Capital expenditure charged against the General Fund and HRA balances		(576)
(8,008)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income or Expenditure Statement		1,086
(181,208)	**Balance at 31 March**		**(169,625)**

(1) The figure for REFCUS includes a £36k adjustment for 2010/11
(2) Recognition of existing assets consist of £4,648k Investment properties and £4k PP&E

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2010/2011 £000		2011/2012 £000
242,400	**Balance at 1 April**	102,991
(101,877)	Actuarial gains and losses on pensions assets and liabilities	89,027
(23,138)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit in the Provision of Services in the Comprehensive and Expenditure Statement	12,277
(14,394)	Employer's pensions contributions and direct payments to pensioners payable in the year	(14,609)
102,991	**Balance at 31 March**	189,686

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2010/2011 £000		2011/2012 £000
(4,535)	**Balance at 1 April**	(4,243)
285	Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	85
7	Transfer to the Capital Receipts Reserve upon receipt of cash	6
(4,243)	**Balance at 31 March**	**(4,152)**

Collection Fund Adjustment Account
The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2010/2011 £000		2011/2012 £000
(4,701)	**Balance at 1 April**	(4,272)
429	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(581)
(4,272)	**Balance at 31 March**	**(4,853)**

Accumulated Absences Account
The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2010/2011 £000		2011/2012 £000
4,346	**Balance at 1 April**	4,346
0	Settlement or cancellation of accrual made at the end of the preceding year	(4,346)
0	Amounts accrued at the end of the current year	3,773
0	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0
4,346	**Balance at 31 March**	3,773

26. CASH FLOW STATEMENT - OPERATING ACTIVITIES

2010/2011 £000		2011/2012 £000
(21,431)	Employee running costs and income	(18,223)
(1,966)	Interest received	(1,591)
9,399	Interest paid	5,206
3,770	Interest element of finance lease	3,603
(10,228)		**(11,005)**

26.1 ADJUST NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS

2010/2011 £000		2011/2012 £000
	Non Cash Movements	
(14,583)	Depreciation	(13,279)
7,105	Impairment & downward valuations	(27,999)
(345)	Amortisation	(434)
37,532	Movement in Pension Liability	2,332
(746)	Increase/(decrease) in impairment for bad debts	(16)
4,738	Increase/Decrease in Impairment in Provisions	(1,479)
(6,385)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(5,854)
(2,468)	Other non-cash items charged to the net surplus or deficit on the provision of services	(336)
24,848		**(47,065)**
	Accruals Adjustments	
65	Increase/Decrease in Stock	(2)
(8,665)	Increase/Decrease in Debtors	11,269
(105)	Increase/Decrease in Interest Debtors	(220)
8,175	Increase/Decrease in Creditors	1,267
4	Increase/Decrease in Interest Creditors	2
(526)		**12,316**
24,322		**(34,749)**

27. CASH FLOW STATEMENT - INVESTING ACTIVITIES

2010/2011 £000		2011/2012 £000
41,454	Purchase of property, plant and equipment, investment property and intangible assets	33,254
0	Purchase of short-term and long-term investments	0
0	Other payments for investing activities	0
(5,639)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6,958)
(3,000)	Proceeds from short-term and long-term investments	(9,000)
(18,073)	Other receipts from investing activities	(23,106)
14,742	**Net cash flows from investing activities**	**(5,810)**

27.1 ADJUST FOR ITEMS INCLUDED IN THE NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING AND FINANCING ACTIVITIES

2010/2011 £000		2011/2012 £000
0	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	0
5,639	Proceeds from the sale of PP&E, investment property and intangible assets	6,958
18,073	Any other items for which the cash effects are investing or financing cash flows	17,127
23,712		**24,085**

28. CASH FLOW STATEMENT - FINANCING ACTIVITIES

2010/2011 £000		2011/2012 £000
(19,961)	Cash receipts of short- and long-term borrowing	0
0	Other receipts from financing activities	(2,664)
108	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,875
0	Repayment of short- and long-term borrowing	26,161
0	Other payments for financing activities	6,214
(19,853)	**Net cash flows from investing activities**	**31,586**

29. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The income and expenditure of the authority's principal directorates recorded in the budget reports for the year is as follows. In 2011/12 the Chief Executive's directorate was subsumed into the Corporate Services directorate.

2011/12	Chief Executives £000	Corporate Services £000	Children, Schools & Families £000	Adult Social Care £000	Libraries £000	Housing £000	Environment & Regeneration £000	Total £000
INCOME								
Fees, charges and other service income	0	(7,005)	(13,525)	(15,746)	(1,151)	(484)	(20,599)	**(58,510)**
Government grants	0	(96,681)	(142,019)	(8,237)	(1,796)	(1,592)	(1,996)	**(252,321)**
Total income	0	(103,686)	(155,544)	(23,983)	(2,947)	(2,076)	(22,595)	**(310,831)**
EXPENDITURE								
Employee expenses	0	21,974	104,669	12,465	3,208	1,090	22,047	**165,453**
Other service expenses	0	111,907	75,959	62,048	1,845	2,039	23,869	**277,667**
Support Service Recharges	0	11,195	10,861	8,151	1,796	466	12,000	**44,469**
Total expenditure	**0**	**145,076**	**191,489**	**82,664**	**6,849**	**3,595**	**57,916**	**487,589**
Surplus or deficit on the provision of services	**0**	**41,390**	**35,945**	**58,681**	**3,902**	**1,519**	**35,321**	**176,758**

2010/11 Comparative Figures	Chief Executives £000	Corporate Services £000	Children, Schools & Families £000	Adult Social Care £000	Libraries £000	Housing £000	Environment & Regeneration £000	Total £000
INCOME								
Fees, charges and other service income	(95)	(6,093)	(11,670)	(20,250)	(1,194)	(104)	(18,033)	**(57,439)**
Government grants	(79)	(92,729)	(137,992)	(1,746)	(1,907)	(1,060)	(2,276)	**(237,789)**
Total income	(174)	(98,822)	(149,662)	(21,996)	(3,101)	(1,164)	(20,309)	**(295,228)**
EXPENDITURE								
Employee expenses	2,099	19,982	105,525	13,519	3,728	1,117	24,147	**170,117**
Other service expenses	2,949	103,437	73,786	54,926	1,487	4,770	23,971	**265,326**
Support Service Recharges	1,622	9,840	6,914	6,837	1,191	578	10,724	**37,706**
Total expenditure	6,670	133,259	186,225	75,282	6,406	6,465	58,842	**473,149**
Surplus or deficit on the cost of services	6,496	34,437	36,563	53,286	3,305	5,301	38,533	**177,921**

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement:

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2010/11 £000		2011/12 £000
177,921	Net Expenditure: Segmental Analysis	176,758
(65,655)	Amounts in the I&E not in the Segmental Analysis	(3,742)
112,266	Cost of Service in Comprehensive Income and Expenditure Account	**173,016**

2010/11 £000	Amounts in the I&E not in the Segmental Analysis	2011/12 £000
(39,499)	Recharges	(46,001)
15,614	Depreciation, Impairment & Amortisation	40,882
(41,770)	Pension Settlement Costs	1,371
0	Sundry	6
(65,655)		**(3,742)**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2011/12	Net Expenditure: Segmental Analysis £000	Amounts in the I&E not in the Segmental Analysis £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Total £000
INCOME						
Fees, charges and other service income	(58,510)	0	0	(58,510)	0	(58,510)
Interest and Investment Income	0	0	0	0	(1,940)	(1,940)
Income from Council Tax	0	0	0	0	(84,865)	(84,865)
Government grants	(252,321)	0	0	(252,321)	0	(252,321)
Total income	**(310,831)**	**0**	**0**	**(310,831)**	**(86,805)**	**(397,636)**
EXPENDITURE						
Employee expenses	165,453	0	(20,431)	145,022	0	145,022
Other service expenses	277,667	1,377	(10,222)	268,822	0	268,822
Support Service Recharges	44,469	0	(10,602)	33,867	0	33,867
Depreciation, Amortisation & Impairment	0	40,882	(4,746)	36,136	0	36,136
Interest Payments	0	0	0	0	16,425	16,425
Precepts and Levies	0	0	0	0	888	888
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	(4,856)	(4,856)
Total expenditure	**487,589**	**42,259**	**(46,001)**	**483,847**	**12,457**	**496,304**
Surplus or deficit on the cost of services	**176,758**	**42,259**	**(46,001)**	**173,016**	**(74,348)**	**98,668**

Reconciliation to Surplus/Deficit on Provision of Services 2011/12	£000
Subjective Analysis	98,668
Financing and investment income and expenditure not included in Subjective Analysis	(1,929)
Depreciation and Impairment not included in Subjective Analysis (Trading Accounts)	830
Taxation and non specific grant	(182,776)
Income from Council Tax	84,865
Surplus/Deficit on the Cost of Services	**(342)**

2010/11	Net Expenditure: Segmental Analysis £000	Amounts in the I&E not in the Segmental Analysis £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Total £000
INCOME						
Fees, charges and other service income	(57,439)	(41)		(57,480)		(57,480)
Interest and Investment Income				0	(1,397)	(1,397)
Income from Council Tax				0	(84,075)	(84,075)
Government grants	(237,789)	0		(237,789)		(237,789)
Total income	**(295,228)**	**(41)**	**0**	**(295,269)**	**(85,472)**	**(380,741)**
EXPENDITURE						
Employee expenses	170,115		(20,824)	149,291		149,291
Other service expenses	265,326	(41,728)	(11,120)	212,478		212,478
Support Service Recharges	37,707		(5,872)	31,835		31,835
Depreciation, Amortisation & Impairment		15,614	(1,683)	13,931		13,931
Interest Payments				0	11,533	11,533
Precepts and Levies				0	915	915
Payments to Housing Capital Receipts Pool				0	68	68
Gain or Loss on Disposal of Fixed Assets				0	696	696
Total expenditure	**473,148**	**(26,114)**	**(39,499)**	**407,535**	**13,212**	**420,747**
Surplus or deficit on the provision of services	**177,920**	**(26,155)**	**(39,499)**	**112,266**	**(72,260)**	**40,006**

Reconciliation to Surplus/Deficit on Provision of Services 2010/11	£000
Subjective Analysis	40,006
Financing and investment income and expenditure not included in Subjective Analysis	(5,386)
HRA (discontinued ops)	602
Taxation and non specific grant	(177,559)
Income from Council Tax	84,075
Surplus/Deficit on Provision of Services	**(58,262)**

30. ACQUIRED AND DISCONTINUED OPERATIONS

The authority did not have any acquired or discontinued operations in 2011/12

31. TRADING OPERATIONS

The authority has established trading units where the service is required to operate in a commercial environment and balance its budget by generating income from other parts of the authority or from other organisations. A brief description is given below:

- Industrial Estates: Commercial property rents and service charges.
- Printing and Graphic Design: Design and printing of official documents.
- Translation Services: Provides translation and interpreting services.
- Transport: Recharged income and expenditure for service department vehicles
- Contractors Health and Safety Assessment (CHAS): The authority provides health and safety training and courses for other local authorities and bodies.

Included in Cost of Services		**2010/11 £000**	**2011/12 £000**
Industrial Estates (a)	Turnover	3,390	3,346
	Expenditure	(7,028)	3,482
	(Surplus)/Deficit	**(10,418)**	**136**
Included within Financing and investment income and expenditure		**2010/11 £000**	**2011/12 £000**
Printing and Graphic Design	Turnover	687	439
	Expenditure	1,078	390
	(Surplus)/Deficit	**391**	**(49)**
Translation Services	Turnover	351	327
	Expenditure	402	332
	(Surplus)/Deficit	**51**	**5**
Transport	Turnover	9,835	8,733
	Expenditure	9,993	9,239
	(Surplus)/Deficit	**158**	**506**
Contractors Health and Safety Assessment	Turnover	3,020	3,400
Scheme (CHAS)	Expenditure	2,207	1,949
	(Surplus)/Deficit	**(813)**	**(1,451)**
All schemes within net operating expenditure	Turnover	13,893	12,899
	Expenditure	13,680	11,910
Sub total	**(Surplus)/Deficit**	**(213)**	**(989)**
All trading operations		**2010/11 £000**	**2011/12 £000**
	Turnover	17,283	16,245
	Expenditure	6,652	15,392
Total	**(Surplus)/Deficit**	**(10,631)**	**(853)**

(a) The variation in results for the Industrial Estates is due to year on year changes in the revaluation of Investment Properties. With the introduction of IFRS in 2010/11, the authority revalued all investment properties. In 2011/12 the authority revalued only 20% of investment properties having carried out the revaluation of properties the year before.

32. AGENCY SERVICES

The Code stipulates that an authority is acting as an agent in situations or circumstances *'where the authority is acting as an intermediary'*. It is acting as a principal in situations or circumstances *'where the authority is acting on its own behalf'*. Using this distinction, this authority does not act as an agent.

33. ROAD CHARGING SCHEMES UNDER THE TRANSPORT ACT 2000

The authority does not operate any road charging schemes under the Transport Act 2000.

34. POOLED BUDGETS – Partnerships - Section 75

During 2011/12 the authority has continued to operate the Partnership Agreements with Sutton & Merton Primary Care Trust, under Section 75 of the National Health Service Act 2006, to provide learning disabilities and integrated community equipment services (ICES). This included the continued operation of the pooled community equipment funds, although the Learning Disabilities programmes no longer fall under Section 75 of NHS Act 2006 :

Pooled Fund for Community Equipment Services in Merton Memorandum Account for the year ending 31 March 2012	Total 2010/11 £000	Learning Disability 2011/12 £000	Community Equipment 2011/12 £000	Total 2011/12 £000
INCOME				
PARTNERS' CONTRIBUTIONS				
Brought forward	551	468	182	**650**
Refund of LBM Contributions	0	0	0	**0**
LB Merton	2,777	0	473	**473**
Sutton & Merton PCT	1,641	0	172	**172**
Additional From PCT	250	0	40	**40**
Learning Disabilities Development Fund (LDDF)	143	0	0	**0**
TOTAL CONTRIBUTIONS	**5,362**	**468**	**867**	**1,335**
EXPENDITURE				
Joint Team	998	0	0	**0**
Day Services	2,439	0	0	**0**
LDDF	163	0	0	**0**
Transfer to PCT	105	0	0	**0**
Transfer to LD Projects	73	0	0	**0**
Other Transfers	0	468	0	**468**
Community Equipment Services	795	0	451	**451**
Stock Adjustment	0	0	2	**2**
Management & Support Costs	138	0	386	**386**
TOTAL EXPENDITURE	**4,711**	**468**	**839**	**1,307**
Balance Carried Forward	**650**	**0**	**28**	**28**

35. MEMBERS' ALLOWANCES

The London Borough of Merton paid the following amounts to members of the authority during the year:

	2010/2011 £000	2011/2012 £000
Salaries	0	0
Allowances	787	769
Expenses	0	1
Total	**787**	**770**

36. OFFICERS' REMUNERATION

The table below shows the number of staff whose total remuneration, excluding pensions contribution but including gross salary, expense allowances, supplements, compensation for loss of office (i.e. redundancy) and benefits, exceed £50,000 in bands of £5,000.

Remuneration £	2010/11 Teaching Staff	2010/11 Other Staff	2011/12 Teaching Staff	2011/12 Other Staff
50,000 – 54,999	77	47	88	46
55,000 – 59,999	33	22	38	18
60,000 – 64,999	19	13	18	14
65,000 – 69,999	20	13	22	10
70,000 – 74,999	10	13	10	12
75,000 – 79,999	8	1	8	6
80,000 – 84,999	2	5	4	6
85,000 – 89,999	1	4	3	3
90,000 – 94,999	2	1	1	2
95,000 – 99,999	2	1	1	3
100,000 – 104,999	1	2	1	1
105,000 – 109,999	0	2	1	1
110,000 – 114,999	1	2	1	0
115,000 – 119,999	0	1	0	1
120,000 – 124,999	0	0	1	0
125,000 – 129,999	0	2	0	1
130,000 – 134,999	0	1	0	2
135,000 – 139,999	0	2	0	2
140,000 – 144,999	0	0	0	0
145,000 – 149,999	0	0	0	0
150,000 – 154,999	0	0	0	0
155,000 – 159,999	0	0	0	0
160,000 – 164,999	0	0	0	0
165,000 – 169,999	0	0	0	0
170,000 – 174,999	0	0	0	0
175,000 – 179,999	0	0	0	0
180,000 – 184,999	0	0	0	0
185,000 – 189,999	0	1	0	1
	176	**133**	**197**	**129**

The numbers of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments) £	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
0 - 20,000	57	78	11	41	68	119	£494,643	£838,541
20,001 - 40,000	11	21	4	25	15	46	£434,222	£1,331,203
40,001 - 60,000	5	6	12	12	7	18	£346,567	£875,427
60,001 - 150,000	3	1	1	5	4	6	£193,722	£439,701
Total	**76**	**106**	**18**	**83**	**94**	**189**	**£1,469,154**	**£3,484,872**

In accordance with Regulation 4 of the Accounts and Audit Regulations (Amendment No.2) (England) 2009, a new legal requirement has been introduced to increase transparency and accountability in Local Government for reporting the remuneration of senior employees:

- Senior employees whose salary is £150,000 or more per year must be identified by name
- Senior employees who meet the regulation's definition and whose salary is between £50,000 and £150,000 must be listed by job title. Current Directors have chosen to be named to aid transparency.

The following table provides this detail for 2011/12 and also the 2010/11 comparative year data with supporting sub-notes.

2011/12 Post holder information	Sub-Notes	Remuneration (Including fees & Allowances) 2011/12 £	Employer's Pension contributions £	Total Remuneration including pension contributions 2011/12 £
Chief Executive Ged Curran	1	185,000	26,085	211,085
Director of Corporate Services Caroline Holland	2	135,000	19,035	154,035
Director of Community and Housing Simon Williams	3	136,096	19,190	155,286
Director of Children, Schools and Families Yvette Stanley		125,345	17,674	143,019
Director of Environment & Regeneration Chris Lee	4	134,306	19,035	153,341
Director of Transformation Chris Pope OBE	5	36,368	4,795	41,163

2010/11 Post holder information	Sub-Notes	Remuneration (Including fees & Allowances) 2010/11 £	Employer's Pension contributions £	Total Remuneration including pension contributions 2010/11 £
Chief Executive Ged Curran	6	186,250	26,075	212,325
Director of Corporate Services Caroline Holland	7	135,000	18,900	153,900
Director of Community and Housing Simon Williams	8	136,096	19,053	155,149
Director of Children, Schools and Families Yvette Stanley	9	125,345	17,549	142,894
Director of Environment & Regeneration Chris Lee	10	134,493	18,900	153,393
Director of Transformation Chris Pope OBE	11	112,917	15,808	128,725

Sub-note 1:	Mr G Curran, Chief Executive's remuneration for 2011/12 was a salary of £185,000. An additional payment of £6,731 was due but was waived by the Chief Executive for Counting Officer responsibility at the Parliamentary Voting System Referendum on 5 May 2011. A separate payment of £700 was received for Pan London Emergency Planning in 2011/12.
Sub-note 2:	Ms C Holland, Director of Corporate Services received an additional separate payment of £700 for Pan London Emergency Planning and a separate payment of £1,300 for Deputy Counting Officer, inspection and supervision duties at the Parliamentary Voting System Referendum on 5 May 2011.
Sub-note 3:	Mr S Williams, Director of Community and Housing also received an additional separate payment of £283 for inspection and count supervision duties at the Parliamentary Voting System Referendum on 5 May 2011.
Sub-note 4 :	Mr C Lee, Director of Environment and Regeneration's remuneration for 2011/12 comprised of salary of £135,000 less a salary sacrifice scheme payment of £694.40. A separate payment of £511.50 was made for inspection and count supervision duties at the Parliamentary Voting System Referendum on 5 May 2011.
Sub-note 5 :	Mr C Pope OBE, Director of Transformation, ceased employment at the Council on 17 July 2011. His salary comprised of £24,861 salary plus additional roles and responsibilities allowance of £9,144 plus accrued holiday pay of £2363. The annualised remuneration for this post was £90,000.
Sub-note 6:	Mr G Curran, Chief Executive's remuneration for 2010/11 was made up as follows; Salary 185,000 plus backdated pay award £1,250. The following additional separate payments were received, Pan London Emergency Planning £500 and for Returning Officer duties for the Parliamentary and Council Elections £13,640.
Sub-note 7:	Ms C Holland, Director of Corporate Services also received additional separate payments for ; Pan London Emergency Planning £500 and for Deputy Returning Officer duties for the Parliamentary and Council Elections £2,500.
Sub-note 8:	Mr S Williams, Director of Community and Housing also received an additional separate payment for Inspection and Senior Count duties for the Parliamentary and Council Elections of: £689.
Sub-note 9:	Ms Y Stanley, Director of Children, Schools and Families received an additional separate payment for Inspection and Senior Count duties for the Parliamentary and Council Elections of: £586.
Sub-note 10:	Mr C Lee, Director of Environment and Regeneration's remuneration for 2010/11 comprised of salary of £135,000 less a salary sacrifice scheme payment of £506.70. Also a separate payment was received for Inspection and Senior Count duties for the Parliamentary and Council Elections of: £760.
Sub-note 11:	Mr C Pope OBE, Director of Transformation's remuneration was made up as follows: Salary £90,000 plus additional roles and responsibilities allowance £22,917. He also received a separate payment for Inspection and Senior Count duties for the Parliamentary and Council Elections of: £720.

37. EXTERNAL AUDIT COSTS

The authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the authority's external auditors:

	2010/2011 £000	2011/2012 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	350	289
Fees payable to the Audit Commission for the certification of grant claims and returns for the year	80	80
Total	**430**	**369**

38. DEDICATED SCHOOLS GRANT

The authority's expenditure on schools is funded primarily by Dedicated Schools Grant (DSG), which is provided by the Department for Children, Schools and Families. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Details of the deployment of DSG receivable for 2011/12 are as follows:

	Central Expenditure £'000	Individual Schools Schools Budget £'000	Total Expenditure £'000
Brought forward from 2010/11	2,926	(126)	2,800
Final DSG for 2011/12	17,825	105,796	123,621
In year reallocation of DSG	(126)	126	0
DSG Available	**20,625**	**105,796**	**126,421**
Less Actual Central Expenditure 2011/12	(18,589)	0	(18,589)
Less Actual Individual Schools Budgets 2011/12	0	(106,122)	(106,122)
Local authority contribution for 2011/12	0	0	0
Carry forward to 2012/13	**2,036**	**(326)**	**1,710**

39. GRANT INCOME

The London Borough of Merton credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

	2010/11 £000	2011/12 £000
Credited to Taxation and Non Specific Grant Income		
Collection Fund	(84,075)	(84,865)
Revenue Support Grant	(8,588)	(15,729)
Business Rates	(59,145)	(50,888)
Area Base Grant	(10,111)	(50)
Capital Grant Income	(9,651)	(23,827)
Performance Review Grant	(1,192)	0
PFI Contribution	(4,797)	(4,797)
New Homes Bonus Grant	0	(552)
Local Service Support Grant	0	(7)
Council Tax Freeze Grant	0	(2,061)
Total	**(177,559)**	**(182,776)**
Credited to Financing and Investment Income		
Grant towards Wimbledon Magistrates Court capital financing	**(245)**	**(234)**
Credited to Services		
Grants over £1million		
Schools Delegated Budget	(105,466)	(128,182)
Housing Benefits Subsidy	(76,255)	(80,284)
Council Tax Benefits	(14,700)	(13,815)
Sure Start	(5,589)	0
Standards Fund 1.1 School Development Grant	(3,952)	(187)
Young Peoples Learning Agency	(3,587)	0
REFCUS related grants for voluntary aided schools	(2,847)	(1,768)
Children's Centres	(1,878)	(1,880)
Benefits Administration	(1,496)	(1,527)
Standards Fund 1.10 Early Years	(1,345)	(170)
Standards Fund 1.6 Extended Schools Sustainability	(1,032)	(40)
LD Crossroads & NHS Grant	0	(6,653)
Pupil Premium	0	(1,651)
Adult Education Main	0	(1,750)
	(218,147)	(237,907)
Total grants under £1million	(19,641)	(14,414)
Total Grants	**(237,788)**	**(252,321)**

	2010/11 £000	2011/12 £000
Contributions over £1million		
LD Residential Care External	(2,345)	(1,220)
LD Home Carel	(1,338)	(146)
Schools Contribution to PFI Schemes Facilities Management	(1,723)	(1,663)
Retention in Drug Treatment Services	(1,063)	(1,036)
Local Taxation Services	(1,062)	(1,086)
Non Delegated Statements	(1,031)	(1,179)
LD Pooled Contribution - Day Service	0	(1,646)
LD Pooled Contribution - Joint Team	0	(1,625)
Provider Service	0	(1,520)
	(8,562)	(11,121)
Total contributions under £1million	(14,291)	(14,544)
Total Contributions	**(22,853)**	**(25,665)**
TOTAL GRANTS AND CONTRIBUTIONS	**(260,641)**	**(277,986)**

The authority has received a number of grants that have yet to be recognised as income as they have conditions attached to them, which if not met, will require the monies to be returned. The balances at the year end are as follows:

Current Liabilities

	31 March 2011 £000	31 March 2012 £000
Capital Grants Receipts in Advance		
Total of grants under £1million	(88)	(257)
Total	(88)	(257)
Revenue Grants Receipts in Advance		
Grants over £1million:		
Merton and Sutton Primary Care Trust	(2,052)	0
Total grants under £1million	(4,529)	(1,742)
Total	**(6,581)**	**(1,742)**

Long Term Liabilities - Capital Grants Receipts in Advance

	2010/11 £000	2011/12 £000
1. Government Grants and other contributions		
Standards Fund	(1,306)	(1,228)
Other Grants and Contributions	(2,416)	(2,286)
	(3,722)	(3,514)
2. Section 106	(6,759)	(6,347)
3. Schools Capital Grant	(1,045)	(945)
Total	**(11,526)**	**(10,806)**

40. RELATED PARTIES

During the year, transactions with related parties arose as follows:

Central Government
Central Government has significant influence over the operations of the authority – it is responsible for providing the statutory framework within which the authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the authority has with other parties (eg Council Tax bills, housing benefits). Details of grants received from government departments are set out in Note 39 as well as grant receipts outstanding at 31 March 2012. The following table provides a summary of the main amounts arising in the accounts:

	2010/11 Payments / (Receipts) £000	2011/12 Payments / (Receipts) £000
Central Government		
- Revenue Support Grant	(8,588)	(15,729)
- Receipts from NNDR Pool	(59,145)	(50,888)
- Area Based Grant	(10,111)	(50)
- Levy by the Environment Agency	148	147
- Performance Reward Grant	(1,192)	0
Precepting Authorities and Other Bodies		
- Greater London Authority precept	23,650	23,598
Levying Bodies – Levies paid		
- London Pensions Fund Authority	283	254
- Lee Valley Authority	227	220
- Wimbledon and Putney Commons Conservators	258	267

Members
Members of the authority have direct control over the financial and operating decisions of the authority. The total of members' allowances paid in 2011/12 is shown in Note 35.

This disclosure note has been prepared using the authority's Register of Members' Interest in addition to a specific declaration obtained in respect of related party transactions from Members and Senior Officers. The authority issued 60 standard letters to current and former Members who held office in 2011/12; to date there have been 58 responses.

During 2011/12 members of the authority (or members of their immediate family or household) undertook related party transactions with the following organisations to the value of £5,664,000. The amounts disclosed below are those material to either party of the related party transaction (i.e. the London Borough of Merton (LBM) or the other entity) and therefore explains the large variance in the amounts identified for disclosure.

Organisation	Nature of transaction	2011/12 £000
Deen City Farm	Grant Received from LBM	121
Endeavour Youth Club	Grant Received from LBM	16
Friends in St Helier (FISH)	Grant Received from LBM	36
Home-Start Merton	Grant Received from LBM	108
Merton and Morden Guild	Grant Received from LBM	88
Merton Priory Homes (MPH)	Capital receipts paid to LBM as part of VAT sharing agreements with MPH (see **12. HRA Capital Expenditure** in the Housing Revenue Account)	5,214
North East Mitcham Community Association	Funding received from LBM	81
Total		**5,664**

Senior Officers
Senior officers of the authority also have direct control over the financial and operating decisions of the authority. Senior officers are required to make a specific declaration in respect of related party transactions. The authority issued 27 standard letters to current (22) and former (5) senior officers who held office in 2011/12; to date there have been 22 responses from current officers and 3 responses from former officers.

In 2011/12, Senior Officers within the authority did not hold any positions in other organisations which would have enabled them to significantly influence the policies of the authority and which would have resulted in a related party transaction of a material nature.

Voluntary Organisations
The authority made grants and payments totalling £450,000 to voluntary and other organisations whose senior management included members of the authority (or members of their immediate family or household). These payments are summarised in the above disclosure on members' related party transactions. In all instances the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. The authority's Register of Members' Interest is open to public inspection on the authority's website.

Pension Fund
The Pension Fund is a separate entity from the authority with its own Statement of Accounts. In 2011/12 an administration fee of £0.087m was paid by the Fund to the authority (£0.195m in 2010/11, Reference Pension Fund, Note 11).

41. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the London Borough of Merton, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the London Borough of Merton that has yet to be financed. The CFR is analysed in the second part of this note.

CAPITAL EXPENDITURE AND CAPITAL FINANCING

	2010/2011 £000	2011/2012 £000
Opening Capital Financing Requirement	176,978	190,532
Capital Investment		
Property, Plant and Equipment	38,310	34,525
Investment Properties	7	25
Intangible Assets	453	499
Revenue Expenditure Funded from Capital Under Statute	7,793	7,251
Sources of Finance		
Capital receipts	(29)	0
Government grants and other contributions	(23,694)	(29,175)
Sums set aside from revenue:		
Leasing Creditor Adjustment	(246)	0
Direct revenue contributions	(2,453)	(576)
MRP	(7,863)	(8,227)
Adjustment of MRP	29	(29)
Adjustment of PFI Liability	1,247	(1,247)
Closing Capital Financing Requirement	**190,532**	**193,577**
Explanation of movements in year		
Increase in underlying need to borrowing (supported by government financial assistance)	4,902	0
Increase in underlying need to borrowing (unsupported by government financial assistance)	7,622	4,321
Adjustment of MRP	29	(29)
Adjustment of PFI Liability	1,247	(1,247)
Lease Creditor Adjustment	(246)	0
Increase in Capital Financing Requirement	**13,554**	**3,045**

42. LEASES

Authority as Lessee

Finance Leases
The authority has acquired a variety of assets, including operational buildings and IT equipment under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts.

31 March 2011 £000		31 March 2012 £000
2,348	Other Land and Buildings	2,729
1,135	Vehicles, Plant, Furniture and Equipment	188
3,483		**2,917**

The authority is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the property acquired by the authority and finance costs that will be payable by the authority in future years while the liability remains outstanding.

The minimum lease payments are made up of the following amounts:

31 March 2011 £000		31 March 2012 £000
	Finance lease liabilities (net present value minimum lease payments):	
615	- current	294
879	- non current	600
111	Finance costs payable in future years	32
1,605	Minimum lease payments	**926**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000
Not later than one year	320	695	294	615
Later than one year and not later than five years	283	536	276	504
Later than five years	323	374	324	375
	926	**1,605**	**894**	**1,494**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 £0.053m contingent rents were payable by the authority (2010/11 £0.057m)

Operating Leases

The authority has acquired Land, Buildings and Vehicles by entering into operating leases. The minimum lease payments due under non-cancellable leases in future years are:

31 March 2011 £000		31 March 2012 £000
216	Not later than one year	126
502	Later than one year and not later than five years	502
1,136	Later than five years	1,011
1,854		**1,639**

The expenditure charged to the Cultural, Environmental, Regulatory and Planning Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

2010/11 £000		2011/12 £000
1,854	Minimum lease payments	1,639
0	Contingent rents	0
0	[Sublease payments receivable]	0
1,854		1,639

Authority as Lessor

Finance leases

The authority has leased out property at a number of sites across the borough on a finance lease basis. The authority has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the authority in future years whilst the debtor remains outstanding.

The gross investment is made up of the following:

31 March 2011 £000		31 March 2012 £000
	Finance lease debtor (net present value of minimum lease payments):	
189	- current	200
3,620	- non current	3,420
5,435	Unearned finance income	5,082
659		
	Unguaranteed residual value of property	659
9,903	Gross investment in lease	**9,361**

The gross investment in the lease and the minimum lease payments will be received over the following period:

	Gross investment in the Lease		Minimum Lease Payments	
	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000
Not later than one year	560	543	538	543
Later than one year and not later than five years	2,104	2,141	2,001	2,078
Later than five years	6,697	7,219	6,162	6,623
	9,361	**9,903**	**8,701**	**9,244**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 £0.326m contingent rents were receivable by the authority (2010/11 £0.123m)

Operating Leases

The authority leases out property and equipment under operating leases for the following purpose:

- For the provision of community services, such as sports facilities, tourism services and community centres.
- For economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2011 £000		31 March 2012 £000
2,152	Not later than one year	2,234
6,774	Later than one year and not later than five years	7,172
59,418	Later than five years	61,145
68,344		**70,551**

The minimum lease payments are receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. There were no contingent rents receivable by the authority in 2011/12.

43. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Property, Plant and Equipment

The authority has a Private Finance Initiative (PFI) scheme under which six secondary schools were rebuilt by a PFI operator, NewSchools. Following a partial termination of the contract, two schools were transferred to academies. The PFI scheme provides for an annual payment to NewSchools, the PFI operator.

Value of Assets Held

The authority's accounts include school buildings constructed under the PFI scheme.

	31st March 2011 £000	31st March 2012 £000
Gross Value	70,818	65,012
Accumulated Depreciation	(3,031)	(1,288)
Net	**67,787**	**63,724**

Value of Liabilities

The authority has two long term liabilities relating to the original PFI scheme of six schools. The first liability is in respect of the capital works on the two schools that became academies. The second liability is in respect of the capital works incurred on the four remaining schools within the PFI scheme.

	Capital £000	Interest £000	Services £000	Total £000
Mar 2013	839	3,442	3,944	8,225
Mar 2014 – 2017	5,355	13,773	15,205	34,333
Mar 2018 – 2022	8,440	17,662	23,150	49,252
Mar 2023 – 2027	12,927	16,013	24,907	53,847
Mar 2028 – 2030	10,566	13,092	17,481	41,139
Total	**38,127**	**63,982**	**84,687**	**186,796**

Partial Termination

	Capital £000	Interest £000	Services £000	Total £000
Mar 2013	485	1,174	0	1,659
Mar 2014 – 2017	2,314	4,322	0	6,636
Mar 2018 – 2022	3,958	4,337	0	8,295
Mar 2023 – 2027	5,598	2,697	0	8,295
Mar 2028 – 2030	4,417	560	0	4,977
Total	**16,772**	**13,090**	**0**	**29,862**

Four Schools

	Capital £000	Interest incl. Contingent Rent £000	Services £000	Total £000
Mar 2013	354	2,268	3,944	6,566
Mar 2014 – 2017	3,040	9,451	15,205	27,696
Mar 2018 – 2022	4,482	13,325	23,150	40,957
Mar 2023 – 2027	7,328	13,316	24,907	45,551
Mar 2028 – 2030	6,149	12,532	17,481	36,162
Total	**21,353**	**50,892**	**84,687**	**156,932**

The authority has two long term liabilities in respect of capital works undertaken at six schools. The first liability relates to the four schools which remain in the original Private Finance Initiative (PFI) scheme and the second liability relates to the two schools which became academies. The amount of the liability repayable within 12 months of the Balance Sheet date should be classified as a current liability. The Balance Sheet for 2009/10 and 2010/11 has therefore been amended to separate out the two current liabilities from the long term liability, to be consistent with the practice adopted in the 2011/12 Balance Sheet. The total adjustment of £1.052m, as shown in the table below, is the sum of the two short term liabilities which were: £0.599m (Main PFI Scheme relating to four schools) and £0.453m (Relating to two schools) for 2010/11; £0.825m (Main PFI Scheme relating to four schools) and £0.422m (Relating to two schools) for 2009/10.

	2009/10 Adjustment	2010/11 Adjustment	Total
	£000	£000	£000
Short Term Creditors	(1,247)	195	(1,052)
Other Long Term Liabilities	1,247	(195)	1,052

44. IMPAIRMENT LOSSES

The authority carried out an impairment review in 2011/12, the result of which was that there were no impairment losses recognised in 2011/12.

45. CAPITALISATION OF BORROWING COSTS

Borrowing costs are expensed as incurred and included in interest payable (Note 10).

46. TERMINATION BENEFITS

The authority terminated the contracts of 189 employees in 2011/12, incurring liabilities of £3.485m (£1.469m in 2010/11).

47. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

The Teachers Pension Scheme is a funded, defined benefit final salary scheme administered by the Department for Children, Schools & Families (DCSF). However, as the authority only acts as an intermediary, passing on the contributions to the DfES, it is unable to identify its share of the underlying assets and liabilities, which is why it is not included as a pension liability in the balance sheet. Instead, the authority pays an employers' contribution, which is supported by a five-yearly actuarial review and charged to the accounts, of 14.1% (2011/12), 14.1% (2010/11) to the DfES. There were no material prepaid or accrued pension contributions at the Balance Sheet date. Contributions for the current and previous year were:

	2010/11 £000	2011/12 £000
Council's contribution to DCSF teacher's pension scheme	5,845	6,096

The added years' payments awarded by the authority in respect of the Teachers' Pension Scheme were £19,384 in 2011/12 (£10,325 in 2010/11).

48. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes
As part of the terms and conditions of employment of its officers, the authority makes contributions towards the cost of post employment benefits. The benefits will actually be payable in the future, when the employees retire, however, the authority is required to disclose the payments that need to be made at the time for employees earn their future entitlement.

The authority participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by the London Borough of Merton. This is a defined benefit final salary scheme where both the authority and employees make contributions into a fund. The level of contributions made into the fund is calculated with the aim of balancing pension liabilities and investment assets.
- Discretionary post retirement benefits to fund early retirement. The is an unfunded defined benefit arrangement: liabilities are recognised when awards are made but there is no accompanying investment built-up to meet these pension liabilities, so cash has to be generated to meet actual pension payments as they fall due.

Transactions Relating to Post-employment Benefits
The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £89m (a gain of £102m in 2010/11).

	Pension Scheme	
	£000	£000
	2010/2011	2011/2012
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Current service cost	(15,283)	(10,350)
Past service cost	43,518	0
Settlements and curtailments	(546)	(1,371)
Finance and Investment Income and Expenditure		
Interest cost	(27,799)	(24,935)
Expected return on scheme assets	23,248	24,379
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**23,138**	**(12,277)**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Actuarial gains and losses	101,877	(89,027)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**125,015**	**(101,304)**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance w ith the code	(23,138)	9,535
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	14,394	14,609

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Local Government Pension Scheme	
	£000 2010/2011	£000 2011/2012
Opening Defined Benefit Obligation	**558,896**	**454,377**
Service Cost	15,283	10,350
Interest Cost	27,799	24,935
Actuarial losses (gains)	(88,881)	76,329
Losses (gains) on curtailment	546	1,371
Liabilities extinguished on settlements	0	0
Liabilities assumed in a business combination	0	0
Estimated benefits paid of transfers in	(19,227)	(16,351)
Past service cost	(43,518)	0
Contributions by Scheme participants	4,285	3,750
Unfunded pension payments	(806)	(1,823)
Fair value of Scheme assets at end of period	**454,377**	**552,938**

Reconciliation of fair value of the scheme (plan) assets:

	Local Government Pension Scheme	
	£000 2010/2011	£000 2011/2012
Opening fair value of Scheme assets	**316,497**	**351,387**
Expected return on scheme assets	23,248	24,379
Actuarial gains (losses)	12,996	(12,698)
Contributions by employer including unfunded	14,394	14,609
Contributions by Scheme participants	4,285	3,750
Assets acquired in a business combination	0	0
Estimated benefits paid net of transfers in and including unfunded	(20,033)	(18,174)
Receipt / (Payment) of bulk transfer value	0	0
Fair value of Scheme assets at end of period	**351,387**	**363,253**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Scheme History

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Present value of scheme liabilities					
The Local Government Pension Scheme (LGPS)	(373,496)	(348,121)	(533,352)	(443,887)	(529,492)
Unfunded Liabilities	(10,227)	(9,378)	(25,544)	(10,491)	(23,447)
Fair value of assets in the LGPS	288,915	233,837	316,496	351,387	363,253
Surplus / (Deficit) in the scheme	(94,808)	(123,662)	(242,400)	(102,991)	(189,686)
Experience adjustments arising on					
Scheme asets as a % of assets	1.20%				
Value of assets	(3,458)				
Scheme liabilities as a % of liabilities	0.50%				
Value of liabilities	(1,866)				

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £553m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £190m. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The authority, through the advice of the actuary, provides additional employers contribution to the fund in support of the recovery of past service deficiencies over a twelve year period. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Basis for Estimating Assets and Liabilities

	2010/11	2011/12
Long-term expected rate of return on assets in the scheme:	**%**	**%**
Equity investments	7.9	6.8
Gilts	4.4	3.3
Property	5.4	4.3
Cash	3	3
Mortality Assumptions:	**Years +**	**Years +**
Longevity at 65 for current pensioners retiring today at 65:		
Men	19.8	20
Women	23.9	24
Longevity at 65 for future pensioners retiring in 20 years at 65:		
Men	21.9	22
Women	25.8	25.9
	%	**%**
Rate of inflation	2.7	2.5
Rate of increase in salaries	5.0	4.7
Rate of increase in pensions	2.7	2.5
Rate for discounting scheme liabilities	5.5	5.5
Take up of option to convert annual pension into retirement lump sum	50	50

History of Experience Gains and Losses

Amounts for the current and previous four periods	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Defined Benefit Obligation	(383,722)	(357,499)	(558,896)	(454,377)	(552,938)
Scheme Assets	288,915	233,837	316,497	351,387	363,253
Surplus (Deficit)	(94,807)	(123,662)	(242,399)	(102,990)	(189,685)
Experience adjustments on Scheme liabilities	(1,866)	0	(15,844)	37,092	(13,754)
Percentage of liabilities	0.5%	0%	-2.8%	8.2%	2.5%
Experience adjustments on Scheme Assets	(32,176)	(78,432)	73,831	12,996	12,698
Percentage of assets	-11.1%	-33.5%	23.3%	3.7%	3.5%
Cumulative Actuarial Gains and Losses	34,639	11,261	(104,176)	(2,299)	(91,326)

Estimation of Contributions to be paid 2012/13
The table below shows the estimated contributions to be paid to the plan during 2012/13. Normal employee and employer contributions are anticipated to rise as a result of salary increments however normal contributions are not expected to rise any further as pay awards are forecast to be frozen for 2012/13. There is also expected to be a £0.25m increase in contributions relating to early retirement.

	2011/2012	2012/13.
	£000	£000
Employers contributions -normal	9,679	9,727
Employers contributions - Deficit Funding Contributions (Additional)	4,800	4,800
Early Retirements (Additional)	175	425
Employees Contributions	4,448	4,470
Total	**19,102**	**19,422**

49. CONTINGENT LIABILITIES

Local Land Charges
There is a pending High Court action for repayment of fees, brought by a Personal Search Company against most local authorities in the country. The Local Government Association is providing legal representation for local authorities. Due to the unpredictability the outcome of the case, it is not possible to quantify the potential liability.

Employment Disputes
There are 9 employment disputes where the authority could be subject to a financial liability. The maximum liability for these is estimated to be £0.768m. However due to the inherent uncertainties surrounding their outcome, the authority has not made a provision for these in the accounts.

Civil Litigations
The authority is a defendant in an injunction and damages claim in the County Court. The potential costs should the authority lose is expected to be in the region of £0.035m. The authority, along with 5 other boroughs, is involved in a dispute in relation to the Connexions arrangement. An estimate of possible liability cannot be made at present.

Section 106 Dispute
The authority is involved in a High Court dispute over a Section 106 agreement. It is expected that costs will be around £0.010m.

Judicial Review
There are currently two judicial reviews involving the authority in respect of an Ofsted report and a review of Special Guardianship Allowance Policy. It is expected that costs could be in the region of £0.09m.

50. CONTINGENT ASSETS

Prosecutions

The authority is involved in a number of prosecutions, including under the Proceeds of Crime Act. The level of recovery cannot be accurately estimated at present.

Legal Fees Recovery

The authority has obtained an order for the disposal of property in relation to the recovery of costs in a court case. However this has been appealed and the matter is subject to the court process.

Empty Property Grant

The authority has issued proceedings against a property developer for the recovery of Empty Property Grants. The authority hopes to recover £0.06m

51. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Credit Risk

Credit risk arises in the lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the authority's customers.

Lending and Investments

In the case of lending/investing surplus funds, risk is minimised through the authority's credit policy that seeks to ensure that invested funds (deposits) are at relatively low risk of deposit-taker default. The policy sets a minimum level of creditworthiness for deposits in individual financial institutions, assessed by reference to data from commercial credit rating agencies and credit default swap data. The minimum credit criteria for 2011/12 were as follows:

Category	Rating	Fitch defintion
Short Term	F1	Highest credit quality on a 12 month view
Long Term	AA	Very low expectation of credit risk developing
Individual (relative performance)	C	Adequate institution with limited weaknesses
Prospect of external support	1	Expectation of Central Government support

In addition to deposits in higher rated deposit-takers, the authority may use an AAA rated Money Market Fund, (which spreads risk taking across deposit takers), and may also place deposits in UK public sector institutions, such as local authorities. At 31st March 2012 the disposition of investments was:

Category	£000	%	Spread (number of counterparties)	Rating
UK Clearing Banks	37,000	64.91	4	F1, A+, 1
UK Building Society	10,000	17.54	1	F1, A+, 1
Local Authority	10,000	17.54	3	N/A
Money Market Funds	0	0	0	AAA

A high credit standard increases concentration of deposits in fewer institutions than would ideally be the case. However, it is considered that in prevailing market circumstances high credit quality is crucial, and outweighs the alternative of a wider spread of deposits across less well-rated counterparties. As and when credit ratings allow, efforts will be made to spread investment across additional deposit-takers.

Long Term Debtors

The authority's remaining housing advances (mortgages) are secured on the properties and the Business Investment Fund is funded by a non-repayable government loan. For all debts there are formal repayment arrangements.

Trading Debtors

No losses or impairments were incurred in 2011/12, nor are expected for the duration of current deposits. The authority does not generally allow credit for customers. All trade and other payables are due to be paid in less than one year. The past-due amount of trade debts can be analysed by age as follows:

	31 March 2011 £000	31 March 2012 £000
< 3 months	6,749	4,754
3 to 12 months	1,105	1,631
> 1 year	1,290	2,523
Total	9,144	8,908

The authority's maximum potential exposure to credit risk is with its trade debtors for which prudent provision has been made.

Cash

The authority's cash balances are held in UK Clearing banks and when the balance is significant, deposits are spread across a number of institutions to reduce risk.

Liquidity Risk

The authority's ability to pay its financial commitments as and when due is supported by substantial resources. It plans a balanced annual budget that provides sufficient revenue to cover annual expenditure, and has access to borrowings from the Money Markets and the Public Works Loans Board.

The maturity analysis of financial liabilities is set out in the following table. This maturity profile is designed to limit the consequence of *significant amounts of* finance being required when market conditions are difficult or expensive. The maximum value of maturities in any single year is 15.1% of total debt falling in the 50 – 55 year period, higher than normal exposure. This has been caused by the effect of debt redemptions in 2009/10 and it will be addressed by future debt management exercises.

	31 March 2011 £000	31 March 2011 %	31 March 2012 £000	31 March 2012 %
Under 12 months	34,224	23	8,063	7
1yr to 2yrs	0	0	0	0
2yrs to 5yrs	0	0	0	0
5yrs to 10yrs	5,966	4	7,966	6
10yrs and over	111,010	73	109,010	87
	151,200	100	125,039	100

The above represents the nominal exposure to debt maturities, but some Lenders Option (LOBO) debt allows the Lender to prompt a repayment by requesting an interest rate change that is unacceptable to the authority. The risk of this occurring is limited by the current rate of interest on such debt, which is higher than current and forecast levels. The authority is therefore not exposed to immediate refinancing risk. In addition, if redemption were required, the authority has adequate resources to finance it, and its occurrence would currently offer the prospect of cost saving.

LOBO debt Option exposure when market rates in range of:	Prospectively repayable / requiring Re-finance £000	Proportion of total debt %
4.00 - 4.99%	5,000	4
5.00 - 5.99%	34,000	27.19
6.00 - 6.99%	15,500	12.4
7.00 - 7.99%	2,000	1.6
8.00 - 8.99%	6,500	5.2

Of the above, only the £4m of debt is reasonably in prospect of option exercise and this amount is not considered problematic in liquidity or re-financing terms. Liquidity is supported by the significant funds the authority has under short-term cash investment. Fixed-interest-rate deposits (investments) are placed in maturities that balance the need to support liquidity for day-to-day cash flow needs with the spreading of investments over a range of periods to optimise investment return.

At 31st March 2012 the sources of potential borrowing appear unimpaired, and the maturity profile of investments, available to support liquidity going forward, is as follows:

	£000	%
April to June 2011	28,000	49.12
July to September 2011	10,000	17.54
October to December 2011	8,000	14.04
January 2012 to March 2012	11,000	19.3
	57,000	**100**

Given the resources available, the authority did not experience any significant liquidity problems in 2011/12 and does not anticipate any for 2012/13.

Interest Rate Risk

The authority is exposed to interest rate movements on its borrowings and investments as follows:

- Borrowing at variable rates – the interest expense charged to the Income and Expenditure Account will rise or fall.
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise or fall accordingly.
- Borrowing at fixed rates – the fair value of the borrowing liability will fall if market rates rise and increase if they fall.
- Investments at fixed rates – the fair value of the assets will fall if rates rise and increase if rates fall.

If market interest rates move by 0.5% and 1%, with other variables held constant, the financial effect on the portfolio is estimated to be:

	£000	0.50% £000	1.00% £000	Mitigation
Borrowings	125,039	585	1,170	In the short-medium term the majority of borrowing is unaffected, being on an effectively fixed rate basis.
Investments	57,000	285	570	Prior to the end of 2011/12, the profile of investments protects the budget from lower interest rates, whilst higher rates act to improve the retu
Impact on CIE		300	600	

	£000	0.50% £000	1.00% £000	Comment
Borrowings	160,126	801	1,601	Fair values fall or increased market rates, and rises on reductions. This is because the interest rates on current loans become less or more expensive relating to prevailling market rates.
Investment Deposits	57,385	287	574	These are valued at current market rates, which correspond to fair value.

Borrowings
The authority's portfolio of borrowings is effectively on long-term fixed rates, and the consequence of exposure to short-term rate movements is very limited. Prudential Indicators, incorporated into Treasury Strategy, set limits to control exposure to this prospective risk and the policy of maintaining a spread of transaction maturities over time acts to average and moderate the consequences of interest rate movements.

Prudential Indicator Limits

Maximum % exposure to	2011/12	2012/13	2013/14	2014/15
Fixed rates	100	100	100	100
Variable rates	50	50	50	50

At 31st March 2012 exposure to variable rates on borrowings is exclusively through future maturities and the risk of LOBO options being exercised. The prospect of the latter is currently not considered significant. The market risk is, therefore, through the spread of debt maturities, and an estimate of a possible financial consequence is shown in the following table. The prospective refinance rate is a normal level of Public Works Loans Board interest rate for long-term finance. This is considered an appropriate and cautious rate to use at present although this may change over time.

Maturity in	Actual at 31 March 2012 £000	Current average interest rate %	Prospective re-finance rate %	Margin %	Annual Effect (Saving or Increased cost) £000
Under 12 months	8,063	1.7	0.34	-1.36	(110)
1yr to 2 yrs	0	0	0	0	0
2yrs to 5yrs	0	0	0	0	0
5yrs to 10yrs	7,966	8.19	2.66	-5.53	(440)
10yrs to 15yrs	26,510	5.92	3.59	-2.33	(617)
15yrs to 20 yrs	5,500	7.55	3.95	-3.6	(198)
20yrs to 30yrs	11,500	5.39	4.3	-1.09	(125)
30yrs to 35 yrs	13,500	6.64	4.4	-2.24	(302)
35yrs to 40yrs	7,000	4.4	4.41	0.01	0
40yrs to 45 yrs	25,000	4.63	4.39	-0.24	(59)
45yrs to 50 yrs	20,000	5	4.36	-0.64	(127)
	125,039				(1,978)

At the currently forecast re-financing rate, which is considered reasonable in an environment where the Bank of England effects efficient control over inflation, re-financing is expected to be at lower cost.

Investments

Investment strategy seeks to exploit the forecast trend in interest rates. If rates are expected to rise, then investments tend to be placed on variable rate terms or short fixed period to allow early re-investment at higher rates. If they are expected to fall, an extended fixed period will maintain income at a higher rate for longer. However, interest rate forecasts do not imply certainty, and optimising investment returns has to be balanced with the need to maintain adequate liquidity. Against this background a Prudential Indicator controls the balance between short-term investments, influenced by liquidity, and longer strategic investment.

Prudential Indicator Limits

	2011/12	2012/13	2013/14	2014/15
Maximum investment over 1 year as percentage of total investments	40	40	40	40

At 31st March 2012, the investment portfolio's exposure to interest rate change is set out in the following table. The effective reduction of income relative to the interest rates being earned on the portfolio at 31st March 2012 is calculated in proportion to the period in 2012/13 over which it would apply, (i.e. investments maturing in the 0-3 month period would be re-invested at lower rates for 3 months).

Deposit Maturity in:	Actual at 31 March 2012 £000	Current average interest rate %	Prospective re-finance rate %	Margin %	Reduction of income relative to 31 March 2012 £000 pa
0-3 months	28,000	1.26	0.62	0.64	22
3-6 months	10,000	1.44	1.15	0.29	11
6-9 months	8,000	1.25	1.48	(0)	(15)
9-12 months	11,000	1.28	1.6	(0)	(31)
over 12 months	0	0	0	0	0
	57,000				(13)

The general, precipitate, reduction in market interest rates prompted by the Euro economic crisis impacts significantly on the amount of investment income to be earned in 2012/13. The reduction of income is not a realised portfolio loss, but rather a reflection of movement in the external market, and is to be accommodated by budgetary measures and prospective savings from debt management.

PFI Borrowing

The PFI loans or liabilities and rate of interest payable are derived from the unitary payment schedule with NewSchools and do not change.

Price Risk

The authority, (excluding its Pension Fund, which is subject to separate reporting), does not currently invest in financial instruments that are subject to market price volatility. If this were to change then the treasury strategy would be developed to manage these risks.

Foreign Exchange Risk

The authority has no financial assets or liabilities denominated in foreign currencies (other than in respect of its Pension Fund), and thus has no exposure to loss arising from movements in exchange rates.

52. HERITAGE ASSETS: FIVE YEAR SUMMARY OF TRANSACTIONS

It is not practicable to provide the above analysis of information for any period before 1 April 2010

53. HERITAGE ASSETS: FURTHER INFORMATION ON THE MUSEUM'S COLLECTIONS

The authority does not operate any museums.

54. HERITAGE ASSETS: CHANGE IN ACCOUNTING POLICY

Effect on Opening Balance Sheet 1 April 2010

	Opening Balances as at 1 April 2010 £000	Restatement £000	Restatement required to opening balances as at 1 April 2010 £000
Heritage Assets	0	669	669
Long Term Assets	454,194	454,863	669
Net Assets	**79,039**	**79,708**	**669**
Unusable Reserves	(17,069)	(17,738)	(669)
Total Reserves	**(79,039)**	**(79,708)**	**(669)**

Effect on Balance Sheet 31 March 2011

	As previously Stated 31 March 2011 £000	As Restated 31 March 2011 £000	Restatement 2011 £000
Heritage Assets	0	669	669
Long Term Assets	477,693	478,362	669
Net Assets	**239,138**	**239,807**	**669**
Unusable Reserves	(167,337)	(168,006)	(669)
Total Reserves	**(239,138)**	**(239,807)**	**(669)**

The above restatement is only in respect of Heritage Assets and excludes the effects of other restatements

There were no movements in reserves in respect of Heritage Assets in 2011/12

55. TRUST FUNDS

Funds for which authority acts as custodian trustee:

2011/12

	Income £000	Expenditure £000	Assets £000	Liabilities £000
LBM Funds				
Tamworth Rec External Investments The Investment with Black Rock Merrill Lynch investment managers held on behalf of Tamworth Recreation Grounds.This is LBM's book value. The accumulated gains from this fund is not realised.			110	
Tamworth Rec Ground & Allotment This Trust Fund was set up to fund improvement works at Tamworth Recreation Ground and allotments. Amount shows all internal funds held by LBM on behalf of Tamworth. Established by the authority pre 1990s			14	
Maintenance of Graves This Trust Fund was set up for the maintenance of grave in perpetuity. The amount shows all internal funds held in LBM bank accounts Established pre 1990s from residence estates naming LBM as a beneficiary			21	
Allotments for working Men Established in 1922 to provide allotment gardens for working men at the frontage to Cambridge Road situated in Cottenham Park, Wimbledon. The area covered being 10.5 acres.			1	
Rock Terrace Trust Established under the indenture dated 19th March 1925. LBM holds the premises "to the intent that the same shall be held used and enjoyed as an open space for the use and recreation of the public"			55	
Total			201	

2010/11

	Income £000	Expenditure £000	Assets £000	Liabilities £000
LBM Funds				
Tamworth Rec External Investments The Investment with Black Rock Merrill Lynch investment managers held on behalf of Tamworth Recreation Grounds.This is LBM's book value. The accumulated gains from this fund is not realised.			110	
Tamworth Rec Ground & Allotment This Trust Fund was set up to fund improvement works at Tamworth Recreation Ground and allotments. Amount shows all internal funds held by LBM on behalf of Tamworth. Established by the authority pre 1990s			14	
Maintenance of Graves This Trust Fund was set up for the maintenance of grave in perpetuity. The amount shows all internal funds held in LBM bank accounts Established pre 1990s from residence estates naming LBM as a beneficiary			21	
Allotments for working Men Established in 1922 to provide allotment gardens for working men at the frontage to Cambridge Road situated in Cottenham Park, Wimbledon. The area covered being 10.5 acres.			1	
Rock Terrace Trust Established under the indenture dated 19th March 1925. LBM holds the premises "to the intent that the same shall be held used and enjoyed as an open space for the use and recreation of the public"			55	
Total			201	

Collection Fund

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The presentation of these accounts is based on the Collection Fund Regulations alone and does not take into account the requirement of the Code to show as a liability the share of the fund balance relating to the Greater London Authority. Note 5 to this statement contains this information and thus provides the link between the Collection Fund accounts and the core statements. The Collection Fund accounts for income from Council Tax and National Non-Domestic Rates on behalf of the Council and the Greater London Authority. The costs of administering collection are accounted for in the General Fund.

2010/11 £000		Notes	2011/12 £000
	Income		
	Council Tax:		
94,425	Income from Council Tax Payers	1	95,638
14,485	Transfer from General Fund Council Tax Benefit		13,815
108,910	Gross Council Tax Income		109,453
72,853	Income collectable in respect of Business Rate Payers	2	74,955
2,699	Income collectable in respect of Business Rate Supplements	2	2,685
184,462	**Total Income**		**187,093**
	Expenditure		
	Precepts and Demands:		
82,163	The Council (London Borough of Merton)		82,424
23,004	Greater London Authority		23,077
105,167			**105,501**
	Business Rates:		
72,560	Payment to national pool	2	74,669
293	Cost of Collection	2	286
2,699	Payment to GLA for Business Rates Supplements	2	2,685
75,552			**77,640**
1,287	Provision for non-payment of Council Tax	3	828
182,006	**Total Expenditure**		**183,969**
(2,456)	(Surplus)/deficit for the year		(3,124)
	Appropriation Account		
(5,999)	(Surplus)/deficit brought forward		(5,468)
646	Payment to preceptors of previous year's surplus		521
2,341	Transfer to General Fund of Collection Fund surplus		1,859
(3,012)	**Surplus after appropriation**		**(3,088)**
(2,456)	Surplus for the year		(3,124)
(5,468)	**Surplus as at 31st March**	4	**(6,212)**

Accounting Policies

The transactions of the Collection Fund are wholly prescribed by legislation. The fund account is prepared on an accruals basis and complies with the appropriate regulations and the Code. The Collection Fund balances are not disclosed separately but are consolidated into the Council's Balance Sheet.

1. Council Tax

Council Tax income is derived from charges on the value of residential properties. There are eight separate valuation bands. These bands are based on valuations taken in April 1991 for this specific purpose.

The Council tax base is the total number of properties in each of the eight valuation bands adjusted by a set proportion for each band to convert to the Band D equivalent for that band. The Band D Charge is the required income from the Collection Fund divided by the Council Tax base. An individual amount due for each Band is calculated by multiplying the Band D charge by the proportion that is specified for each particular band. The Council Tax base in 2011/12 is 74,486 (74,250 for 2010/11). The derivation of this is shown in the table below. The Council Tax charge for a Band D property was £1,412.81 in 2011/12 compared to 1,412.92 in 2010/11.

Council Tax Band	Number of Dwellings on Valuation Officers List		Number of Dwellings after Discounts and Exemptions		Ratio to Band D	Equivalent Number of Band D Properties	
	2010/11	2011/12	2010/11	2011/12		2010/11	2011/12
A adjust	2	2	2	2	5/9	1	1
A	1,042	1,050	899	882	6/9	599	588
B	7,966	8,002	6,747	6,765	7/9	5,248	5,262
C	20,887	21,082	18,496	18,610	8/9	16,440	16,542
D	27,160	27,232	24,713	24,746	9/9	24,713	24,746
E	12,976	12,960	11,953	11,884	11/9	14,610	14,525
F	4,882	4,943	4,500	4,538	13/9	6,500	6,555
G	3,890	3,903	3,629	3,603	15/9	6,048	6,006
H	1,520	1,536	1,429	1,439	18/9	2,858	2,877
Total						**77,017**	**77,102**
Allowance for non-collection						(2,773)	(2,621)
Defence properties						6	5
Council Tax Base						**74,250**	**74,486**

The Council's estimated tax base for 2011/12 was 74,486 and from this an income yield of £105.50m was expected (£105.17m in 2010/11). The actual tax base was equivalent to 77,472 and the income generated was £109.45m (£108.91m in 2010/11). This income is received from Council Taxpayers and through Council Tax benefit (in effect, by means of Government Grant). There is no transitional relief and the Council does not give discounts for prompt payments.

2. National Non-Domestic Rates (NNDR)

The Council is responsible for collecting rates due from the business ratepayers in its area. Her Majesty's Revenue and Customs (HMRC) sets the rateable value. These values are then multiplied by a Uniform Business Rate, which is set by Central Government. The proceeds are paid into a pool administered by the Government. The Government then redistributes the sums paid into the pool back to local authorities' General Funds. This is done on the basis of a fixed amount per head of population. The table below contains information relating to National Non-Domestic Rates.

	31st March 2011	**31st March 2012**
Non-domestic rateable value at year end	£207m	£205m
Number of Hereditaments	5,366	5,333
Uniform Business Rate (in the £)	41.4p	43.3 p

The amounts included in the Collection Fund in respect of national non-domestic rates were as follows:

	2010/11 £000	**2011/12 £000**
Gross Rates payable (including net amounts for previous years)	83,418	84,247
Mandatory and discretionary reliefs	(8,744)	(8,539)
Provision for bad and doubtful debts	(1,821)	(753)
Net Income	**72,853**	**74,955**
Cost of collection	(293)	(286)
Net contribution to NNDR pool	**72,560**	**74,669**

Business Rate Supplements (BRS) were introduced by the Business Rate Supplements Act 2009 and related regulations and statutory guidance. The Act confers powers on relevant local authorities 'to impose a levy on non-domestic ratepayers to raise money for expenditure on projects expected to promote economic development.'

LBM have a duty under the BRS Act to collect and enforce the Crossrail BRS on behalf of the GLA. All properties with a rateable value greater than £55,000 pay an additional 2p in the pound.

The amounts included in the Collection Fund in respect of National Business Rate Supplements were as follows:

	2010/11 £000	**2011/12 £000**
Gross Rates payable	2,913	2,900
Mandatory and discretionary reliefs	(214)	(215)
Net contribution to GLA	**2,699**	**2,685**

3. Provision for Bad and Doubtful Debts

The movements in the provision for bad and doubtful debts were as follows:

	Balance at 1st April 2011 £000	Allowance for Impairment £000	Amounts charged against Allowance £000	Balance at 31st March 2012 £000
Council Tax	6,500	828	628	6,700
Council Tax Community Charge	72	0	72	0
National Non-Domestic Rates	3,400	753	953	3,200
TOTAL	**9,972**	**1,581**	**1,653**	**9,900**

4. Collection Fund Surpluses and Deficits

There is an accumulated surplus of £6.2m on the Collection Fund (£5.5m in 2010/11). This surplus is attributable to the London Borough of Merton and to the Greater London Authority (GLA) and is based on their respective demands upon the Collection Fund. The estimated shares of the fund are shown in the following table.

	2010/11 £000	2011/12 £000	Change in the Year £000
London Borough of Merton Council Tax surplus	4,272	4,854	582
Greater London Authority Council Tax surplus	1,196	1,358	162
Total	**5,468**	**6,212**	**744**

In the Council's Balance sheet, the Collection Fund balance contains the Council's share only. The share owed to the Greater London Authority is included in a net balance owed to the Greater London Authority. This treatment is in accordance with the Code. A detailed analysis of the balances is given below.

	Greater London Authority £000	London Borough of Merton £000	Total £000
Accumulated surplus as at 1st April 2011	(1,196)	(4,272)	(5,468)
Paid to GLA in 2011/12	521	0	521
Transfer to General Fund in 2011/12	0	1,859	1,859
Surplus in 2011/12	(683)	(2,441)	(3,124)
Total	**(1,358)**	**(4,854)**	**(6,212)**

5. Link to Core Statements

This note provides the link between the Collection Fund accounts, which are based on the Collection Fund Regulations, and the relevant Core Statements, which are based on the Code.

Income and Expenditure	2010/11 £000	2011/12 £000
Demand on the Fund Transfer of Surplus	82,163 2,341	82,424 1,859
Total included in I&E under Collection Fund Regulations Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement)	**84,504** (429)	**84,283** 582
Council Taxation Fund Income	**84,075**	**84,865**

Movement in Reserves Statement	2010/11 £000	2011/12 £000
Reversal of adjustment of Collection Fund Surplus under 2011 Code	429	(582)
Net charge to General Fund, which is based on statutory requirements	**84,504**	**84,283**

Balance Sheet	Collection Fund 2011/12 £000	Balance Sheet 2011/12 £000
Council Tax		
Arrears	8,678	6,780
Impairment Allowance for Doubtful Debts	(6,700)	(5,235)
Receipts in Advance	(4,066)	(3,177)
Collection Fund (Surplus) / Deficit	(4,854)	(4,854)
GLA	(1,358)	(1,814)
Cash	**(8,300)**	**(8,300)**
Business Rates		
Arrears	4,713	0
Impairment Allowance for Doubtful Debts	(3,200)	0
Receipts in Advance	(2,328)	0
Pool	(92)	(907)
Cash	**(907)**	**(907)**

Housing Revenue Account

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost.

The HRA was closed on 31st March 2011 therefore there were no transactions for the financial year 2011/12.

1. Housing Revenue Account Income and Expenditure Statement

2010/11 £000		Notes	2011/12 £000
	Expenditure		
211	Repairs and maintenance		0
256	Supervision and management		0
(6)	Rents, rates taxes and other charges		0
58	Negative HRA Subsidy payable	5	0
0	Depreciation and impairment of non-current assets	7,10 & 11	0
0	Debt management costs		0
351	Movement in the allowance for bad debts	6	0
870	**Total Expenditure**		**0**
	Income		
(71)	Dwelling rents		0
(9)	Non-dwelling rents		0
(141)	Charges for services and facilities		0
(221)	**Total Income**		**0**
649	Net cost of HRA Services as included in the Comprehensive Income and Expenditure Statement		0
0	HRA services' share of Corporate and Democratic Core		0
649	**Net Cost of HRA Services**		**0**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
0	Loss on sale of HRA non-current assets		0
(47)	Interest and investment income	7	0
0	Pensions interest cost and expected return on pensions assets	13	0
602	**Deficit for the year on HRA Services**		**0**

2. Movement on the Housing Revenue Account Statement

2010/11 £000		Notes	2011/12 £000
(4,656)	**Balance on the HRA at the end of the previous year**		**(4,054)**
602	Deficit for the year on the HRA Income and Expenditure Statement		0
0	Adjustments between accounting basis and funding basis under statute	3	0
602	Net (increase) or decrease before transfers to or from reserves		0
0	Transfers from reserves		0
0	Transfer to General Fund Balance		4,054
602	(Increase) or decrease in year on the HRA		4,054
(4,054)	**Balance on the HRA at the end of the current year**		**0**

3. Note to the Movement on the Housing Revenue Account Statement

2010/11 £000		Notes	2011/12 £000
	Adjustments between accounting basis and funding basis under regulations		
0	Reverse charges made for retirement benefits in accordance with IAS 19		0
0	Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners		0
0	HRA share of contributions to the Pensions Reserve	13	0
0	Impairment of non-current assets		0
0	Write downs of Revenue Expenditure Funded Under Statute from Capital Resources		0
0	Loss on sale of HRA non-current assets		0
0	Transfer from Major Repairs Reserve	7	0
0	HRA debt redemption		0
0	**Total Adjustments between accounting basis and funding basis under statute**		**0**

4. Stock Transfer

On 22nd March 2010, the Council transferred its housing stock to Merton Priory Homes (MPH), which is part of Circle (formerly Circle Anglia).

As part of the transfer agreement, the Council paid £1.85m to Merton Priory Homes in order for them to complete the 2009/10 capital programme. The works have now been completed. Due to health and safety and various design issues, the final cost of the programme increased by £0.24m subject to final settlement.

5. Subsidy

The HRA Subsidy is based on a notional account representing the Government's assessment of what the Council should be collecting and spending. There was no subsidy in 2011/12.

2010/11 £000		2011/12 £000
0	Management Allowance	0
0	Maintenance Allowance	0
0	Major Repairs Allowance (MRA)	0
0	Charges for Capital	0
0	Guideline Rent Income	0
(2)	Interest on Receipts	0
(56)	Previous Year's Housing Subsidy Adjustment	0
(58)	**HRA Subsidy payable to CLG**	**0**

6. Tenants' and Leaseholders Rent and Service Charges Arrears and Bad Debt Provision

The Council continues to be responsible for former tenants' arrears, which did not transfer to Merton Priory Homes. The arrears are managed as part of the Council's general debtors (see Note 19 to the Core Financial Statements).

Leaseholder service charges income of £0.4m was recognised in 2011/12 within General Fund Housing in respect of major housing works undertaken in 2009/10. A similar level of impairment charges were made such that total impairment of leaseholder debt matches the total debt outstanding of £0.88m.

2010/11 £000	Arrears and overpayments	2011/12 £000
282	Former Tenants' rent and service charges arrears	0
0	Former Tenants' rent and service charges overpayments	0
479	Leaseholders' works and service charge arrears	0
761	Total Tenants' and Leaseholders' Arrears	0
(761)	Provision for bad and doubtful debts	0

2010/11 £000	Allowance for Bad Debts	2011/12 £000
(469)	Opening balance	0
(351)	Provision made in the year	0
59	Amounts written off	0
(761)	**Closing balance**	**0**

7. Capital Charges

Following the closure of the HRA at the end of 2010/11, residual HRA balances were transferred to the General Fund and there were no capital charges in 2011/12.

2010/11 £000		2011/12 £000
	Service Expenditure	
0	Depreciation and Impairment	0
0	Debt Management Expenses	0
	Operating Expenditure and Income	
(45)	Interest on Notional Cash Balance	0
0	Interest on Mid Year Capital Financing Requirement	0
(2)	Mortgage Interest	0
	Appropriations	
0	Transfer from Major Repairs Reserve	0
0	Transfer from Capital Adjustment Account	0
(47)	**Total Capital Charges**	**0**

8. Housing Stock

The Council transferred 6,326 dwellings to Merton Priory Homes in March 2010 and closed the HRA at the end of 2010/11. There was no stock held in 2011/12 or 2010/11.

9. Valuations

The total balance sheet value (as at 1st April in the year) of HRA assets was nil.

2010/11 £000		2011/12 £000
	Operational Assets:	
0	Dwellings	0
0	Garages	0
0	**Sub total**	**0**
0	**Non-Operational Assets**	**0**
0	**Total HRA Balance Sheet Value at 1st April**	**0**

The Council has not held any dwellings, garages or non-operational assets within the HRA since 22 March 2010 and so the total balance sheet value of HRA assets was nil as at 31st March 2010 and 31st March 2011. There was no difference between the Vacant Possession Value and the balance sheet value, which shows the economic cost to government of providing council housing at less than open market value.

10. Depreciation and Impairment of Fixed Assets

There were no depreciation or impairment charges for HRA fixed assets in 2010/11 or 2011/12.

2010/11 £000		2011/12 £000
	Operational Assets:	
0	Dwellings	0
0	Non Operational Assets	0
0	**Depreciation and impairment charged to HRA**	**0**

11. Major Repairs Reserve

There has been no movement on the reserve in 2011/12 and the balance on the reserve as at 31st March 2012 and 31st March 2011 was nil.

2010/11 £000		2011/12 £000
	Major Repairs Reserve	
0	**Opening Balance at 1st April**	**0**
0	HRA depreciation	0
0	HRA Capital expenditure financed by Major Repairs Allowance	0
0	Transfer from Major Repairs Reserve to HRA	0
0	**Major Repairs Reserve at 31st March**	**0**

12. HRA Capital Expenditure

There was no HRA capital expenditure in 2011/12 or 2010/11.

2010/11 £000		2011/12 £000
0	**Total HRA capital expenditure – Council Dwellings**	**0**
	Financed by:	
0	Increase in underlying need to borrow	0
0	Major Repairs Reserve	0
0	**Total Financing**	**0**

Capital receipts of £0.66m were achieved in 2011/12 (£1.0m in 2010/11) in respect of right to buy sales and a further £5.34m (£0.47m in 2010/11) as a result of VAT sharing agreements.

2010/11 £000		2011/12 £000
471	Capital receipts from VAT sharing agreements	5,340
1,011	Capital receipts through sales of HRA property including preserved Right to Buy sales	670
(11)	Less administration costs	(6)
1,471	**Total Housing Capital Receipts**	**6,004**

2010/11 £000		2011/12 £000
67	Capital Receipts payable to CLG	7
1,404	Retained Capital Receipts	5,997
1,471	**Total Housing Capital Receipts**	**6,004**

13. Pensions Reserve

The net effect of the IAS19 transactions on the HRA is zero as summarised below.

2010/11 £000		2011/12 £000
0	Reversal of employer contribution	0
0	Current service cost	0
0	**Fall in cost of HRA services**	**0**
0	Interest on Pension Scheme Liabilities less interest earned on Pension Scheme assets	0
0	**Total of IAS19 effect on Net HRA Operating Expenditure**	**0**
	Transfer from HRA to Pensions Reserve	
0	Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	0
0	Net charges made for retirement benefits in accordance with IAS 19	0
0	**Total Transfer from HRA to Pensions Reserve**	**0**
0	**Net Effect of IAS 19 on HRA**	**0**

14. HRA Balances

The balance on the HRA as at 31st March 2012 was nil (£4.054m at 31st March 2011). In accordance with the consent given by the Secretary of State on 29th March 2011, the HRA was closed on 31st March 2011 and the remaining HRA balance of £4.054m was transferred to the General Fund Balance in 2011/12.

Pension Fund Accounts

Fund Account	Notes	2010/11 £000	2011/12 £000
Dealings with members, employers and others directly involved in the fund			
Contributions	7	(21,097)	(19,102)
Transfers in from other pension funds	8	(2,648)	(4,542)
Total Income		**(23,745)**	**(23,644)**
Benefits	9	18,545	20,210
Payments to and on account of leavers	10	3,551	4,344
Provision for Bulk Transfer	22	0	4,371
Administration Expenses	11	339	186
Total Expenditure		**22,435**	**29,111**
Net (additions)/withdrawals from dealing with members		**(1,310)**	**5,467**
Returns on Investments			
Investment and other income	12	(9,214)	(10,566)
Taxes on Income	13	241	300
Profit and losses on disposal of investments and changes in the market value of investments:			
- Unrealised	15	(14,920)	(4,894)
- Realised		(4,169)	(3,256)
- Futures Variance Margins		(443)	(22)
Investment Management Expenses	14	361	1,029
Net Returns on Investments		(28,144)	(17,409)
Net (increase)/decrease in the fund during the year		**(29,454)**	**(11,942)**
Add: Opening net assets of the scheme		(355,569)	(385,023)
Closing net assets of the scheme		**(385,023)**	**(396,965)**

Net Assets Statement

The Net Assets Statement shows how the assets of the Pension Fund are invested.

2010/11 £000		Notes	2011/12 £000
383,217	Investment assets	15	395,440
4,375	Cash deposits	15	3,213
387,592			**398,653**
(1,866)	Investment liabilities	15	(1,237)
1,123	Current assets	20	4,033
(1,826)	Current liabilities	21/22	(4,484)
385,023	**Net assets of the fund available to fund benefits at period end**		**396,965**

Note1: The financial statements summarise the transactions of the Fund and the net assets. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the statement by the consulting actuary in the annual report and these accounts should be read in conjunction with that.

Notes to the Pension Fund Accounts

1. Description of Fund

The Local Government Pension Scheme Regulations require the authority to maintain specified pension arrangements for eligible employees, and to act as the Administering Body for these arrangements.

Certain associated organisations, known as Admitted and Scheduled Bodies, may also participate in the Pension Scheme. The Scheduled Bodies have a right to be incorporated, whereas Admitted Bodies require the agreement of the Administering Body. The Admitted and Scheduled Bodies that contribute to the London Borough of Merton Pension Fund are:

Admitted bodies	Scheduled Bodies
• Moat Housing Association • Greenwich Leisure • Central and Cecil Housing Trust • Merton Priory Homes • Environmental Waste Control	• Wimbledon and Putney Commons Conservators • Harris Academy • St. Mark's Academy

The Pension Scheme is financed by contributions from employees and employers, together with income and proceeds from investment of a Pension Fund administered by the Council in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations.

The rates of contribution paid by employees and employers are determined by national regulations, as are the scheme's benefits, including final salary based pensions, death grants and lump sum payments.

A Pension Fund Advisory Panel oversees and advises on investment of the Fund. This panel comprises Council Members, a pensioner representative, staff side representative and officers, with the Director of Corporate Services responsible for administration. The authority takes independent professional advice on investment policy and strategy.

	2010/11 No.	2011/12 No.
Contributors	3,147	3,055
Pensioners	3,132	3,260
Deferred Pensioners	2,973	3,193
Employers' contribution rates as included in the certificate of adequacy of the contribution rate:	**%/£**	**%/£**
Scheduled bodies:		
• LB Merton	14% plus £3.2m	14.1% plus £4.8m
• Wimbledon and Putney Commons Conservators	25%	25.4%
• Harris Academy	12.5%	15.6%
• St. Marks Academy	14.0%	14.1%
Admitted bodies:		
• Moat Housing Association	19.0%	24.1%
• Greenwich Leisure	14.5%	16.8% plus £12.6k
• Merton Priory Homes	13.8%	13.8%
• Central and Cecil Housing Trust	23.0%	24.2%
• *Connaught PLC	19.0%	N/A
• Environmental Waste Control	16.0%	15.1%
Employees' contribution rates:		
• Manual workers – protected	6.5%	No longer applies
Since April 2008, member's contributions have been set by reference to the whole time pay for their post and fall in the range 5.5% to 7.5%.		

Note

*Connaught's agreement as an Admitted Body terminated in 10/11

2. Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2011/12', which is based upon International Financial Reporting Standards (IFRS).

The Fund Account is operated on an accruals basis except where otherwise stated.

3. Summary of Significant Accounting Policies

3.1 Investments

The Pensions SORP requires that investments should be included at their market value at the date of the Net Assets Statement, where such a value is available. Changes in market value are debited or credited to the Fund Account. The SORP promotes the use of bid values for market values but only where they are quoted prices in an active market. If a market is not active or has not been active since significant change in economic circumstances, then fund managers may provide an alternative valuation, which in their professional opinion provides a more reliable basis for market value. Based upon these principles, investments are valued as follows :-

- Quoted securities are valued at current market “bid” price.

- Unquoted securities are valued using professional estimates of fair value provided by investment managers, or otherwise at the lower of estimate or book value where considered more prudent.

- Pooled investment vehicles are valued at bid price where available in an active market or otherwise at a single closing price.

- The two UBS Property Holdings are valued as follows: The UBS Triton Property Unit Trust (UBS Triton Trust) price is based upon the UBS Triton Property Fund (the Partnership) price after taking into account management fees and expenses, tax, income and cash balances. The UBS Life Triton Property Fund (UBS Life Triton) price is based upon the UBS Triton Property Fund (the Partnership) price after taking into account management fees and expenses, income and cash balances. UBS Life Triton has a swinging single price, with the dealing price swinging from net asset valuation price to the equivalent of a bid or offer price, according to net daily outflows or inflows respectively.

- Property investments are in pooled vehicles rather than direct investments in property. Property investments (i.e. managed funds) are valued at bid prices where available and representative, or at a single price provided by the fund manager where there are no representative bid/offer spreads and the chosen single price better represents fair value.

- Derivatives are used to effect efficient management of the investment portfolio, and not as an investment class. These are valued from prices set by independent participants in the market, with variance margins calculated against published FTSE indices.

3.2 Investment income
Investment income is reported gross of taxation, regardless of whether tax may be payable on a portion of that income. Tax paid is reported separately.

3.3 Foreign currency
Foreign currency transactions are converted into Sterling by the investment managers. This is done at London rates prevailing at close of business on the 31 March 2012.

3.4 Contributions
Employees’ contributions are accounted for at the time equivalent to when they are deducted from pay.

Employer normal contributions are accounted for in the period in which they are due under a schedule of contributions. Employer deficit funding contributions are accounted for on the due date on which they are payable in accordance with the recovery plan under which they are paid. Employers' deficit funding contributions are made on the advice of the authority's actuary. Their purpose is to finance the recovery of past service deficiencies over an agreed period (currently fifteen years).

Refunds of contributions have been brought into the accounts on the basis of all valid claims paid during the year rather than the date of leaving or date of retirement.

Where members of the pension scheme have no choice but to receive a refund or single cash sum on retirement, these accounts have included any material amounts as accruals.

3.5 Benefits

Benefits are accounted for on the basis of the date of leaving or the date of decision on the type of benefit, if later.

3.6 Transfers

Transfer values are sums paid to or received from other pension schemes, relating to periods of previous pensionable employment. These are included on the basis of payments made or receipts received in the case of individual transfers and on an accruals basis for bulk transfers, which are considered material to the accounts. As at 31 March 2012, there were no outstanding obligations for transfer payments or amounts receivable for 2011/12, other than those specified under Contingent Liabilities (Note 24).

3.7 Taxation

Withholding tax and any other tax deducted on trading activities is shown as a tax charge and the recovery of this tax is not anticipated by the raising of a debtor but is credited to other income only when received. By virtue of Merton Council being the Administering authority, VAT input tax is generally recoverable on all fund activities.

3.8 Provisions

Provisions are liabilities of uncertain timing or amount. Provision is made for unusual items which meet the definition of a provision but only when these are judged to be material to the accounts.

3.9 Going Concern

The Pension Fund Accounts have been prepared on a going concern basis.

4. Critical Judgements in Applying Accounting Policies

An actuarial valuation of the Fund is carried out every three years and there are annual updates in the intervening years. These valuations determine the pension fund liability at a given date. There are various assumptions used by the actuary that underpin the valuations, therefore the valuations are subject to significant variances dependent on the assumptions used.

5. Assumptions Made About the Future And Other Major Sources of Estimation Uncertainty

The main item in the net asset statement at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year is the actuarial present value of promised retirement benefits.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits.	Estimation of the net liabilility to pay pensions and the judgements used in these estimations are carried out by the actuary, Barnett Waddington. The significant judgements are in regard to the discount rate used, salary increase projections, and retirement age.	The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £12.3m and a -0.1% reduction would increase the obligation by £12.6m. An adjustment to the mortality age rating assumption of +1 yr would increase the obligation by £20.8m.

6. Events After The Reporting Date

The Statement of Accounts was authorised for issue by the Director of Corporate Services Finance on 27 September 2012. At this date there were no post balance sheet events to report. Events taking place after this date are not reflected in the financial statements or notes.

As at 31 July 2012 there were no significant movements in the investment values.

7. Contributions Receivable

2010/11 £000		2011/12 £000
	Employers	
	London Borough of Merton	
8,861	• Normal	8,566
4,661	• Deficit Funding Contributions (Additional)	4,800
0	• Early Retirements (Additional)	175
316	• Scheduled Bodies	345
2,583	• Admitted Bodies	768
16,421		**14,654**
	Members	
	London Borough of Merton	
4,261	• Normal	4,076
127	• Scheduled Bodies	131
288	• Admitted Bodies	241
4,676		**4,448**
21,097	**Total**	**19,102**

The significant reduction (in Admitted Bodies' Employer contributions) between 2010/11 and 2011/12 is due to a one-off contribution receipt by Merton Priory Homes of £1.93m when they entered the scheme 22 March 2010.

8. Transfers In From Other Pension Funds

2010/11 £000		2011/12 £000
2,648	Individual Transfers	2,245
0	Bulk Transfers	2,297
2,648	**Total**	**4,542**

The bulk transfer was from the London Borough of Richmond in respect of Legal Services.

9. Benefits Payable

2010/11 £000		2011/12 £000
	Pensions Payable	
14,116	London Borough of Merton	15,260
558	Scheduled Bodies	595
157	Admitted Bodies	133
14,831		**15,988**
	Lump Sum Benefits Payable	
	Retirement Benefits	
3,231	London Borough of Merton	3,667
3	Scheduled Bodies	3
	Death Benefits	
480	London Borough of Merton	552
3,714		**4,222**
18,545	**Total**	**20,210**

10. Payments to and on Account of Leavers

2010/11 £000		2011/12 £000
3,547	Individual Transfers	1,656
0	Bulk Transfers	2,685
5	Refunds of Contribution	4
(1)	State Scheme Premiums	(1)
3,551	**Total**	**4,344**

The bulk transfer was paid to the Wimbledon School of Art.

11. Administrative Expenses

2010/11 £000		2011/12 £000
195	Employee cost	87
27	Audit Fee	35
117	Running Costs	64
339	**Total**	**186**

The employee costs are based upon the time spent by relevant officers on pensions' administration and investment matters. The reduction in the 2011/12 figure compared to 201011 is due to more accurate time recording.

12. Investment Income

2010/11 Restated £000		2011/12 £000
4,026	Bonds - Unit Trusts	3,850
3,950	UK Equities and Convertibles	5,190
449	Europe - Equity	476
268	Property	391
130	Unit Trusts - Equities	175
391	Other	484
9,214	**Total**	**10,566**

Note: The above table has been revised from 10/11 to be SORP compliant.

13. Taxes on Income

2010/11 £000		2011/12 £000
219	Non-Recoverable Tax	276
22	Recoverable Tax	24
241	**Total**	**300**

14. Investment Expenses

2010/11 £000		2011/12 £000
361	Management Fees and Custody	1,029
361	**Total**	**1,029**

The difference in the level of expenditure between the two years is due to the reclassification from administration expenses to investment expenses, and an under accrual of investment management expenses in 10/11.

15. Investments

15.1 Fund management arrangements

The management of Pension Fund investments is delegated to external investment managers. The table below shows the market value of the assets (including accrued dividends) by fund manager as at 31 March 2012.

	Aberdeen		UBS		RREEF Property		Total	
	£000	%	£000	%	£000	%	£000	%
2010/11								
Direct	52,412	14%	105,804	27%	876	0%	159,092	41%
Pooled	119,595	31%	101,175	26%	5,864	2%	226,634	59%
Market	**172,007**	45%	**206,979**	54%	**6,740**	2%	**385,726**	100%
2011/12								
Direct	50,585	13%	104,066	26%	0	0	154,651	39%
Pooled	130,159	33%	105,716	27%	6,890	2%	242,765	61%
Market	**180,744**	**45%**	**209,782**	**53%**	**6,890**	**2%**	**397,416**	**100%**
% Change	5.08%		1.35%		2.23%		3.03%	

15.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2012 is shown below.

Market Value 31 March 2011 £000		Market Value 31 March 2012 £000
	Investment Assets	
49,138	Fixed Interest Securities	51,631
153,877	Equities	153,301
167,423	Pooled Investments	173,473
9,920	Pooled Property Investments	14,941
	Derivative contracts	
1,942	Futures	1,203
4,375	Cash Deposits	3,213
917	Investment income due	891
387,592	**Total Investment Assets**	**398,653**
	Investment Liabilities	
	Derivative contracts	
(1,866)	Futures	(1,237)
(1,866)	**Total Investments liabilities**	**(1,237)**
385,726	**Net Investment assets**	**397,416**

15.3 Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2011/2012.

	Market Value 1 April 2011 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Market Value 31 March 2012 £000
Fixed Interest Securities	**49,138**	1,810	(4,476)	5,159	**51,631**
Equities	**276,203**	21,328	(18,561)	(3,674)	**275,296**
Index Linked	**45,097**	9,212	(5,164)	2,333	**51,478**
Pooled Property	**9,920**	4,312	0	709	**14,941**
	380,358	**36,662**	**(28,201)**	**4,527**	**393,346**
Derivatives (Futures)				0	
Future contracts	**1,942**			(739)	**1,203**
Cash Liability	**(1,866)**	7,115	(7,745)	1,259	**(1,237)**
	380,434	**43,777**	**(35,946)**	**5,047**	**393,312**
Other Investment Balances					
Specialist investment balances (10/11 Adj)				(153)	**0**
Cash UK (Fund Managers)	**4,375**				**3,213**
Investment Income Due	**764**				**891**
	5,139				**4,104**
Total Investments at Mkt Value	**385,726**				**397,416**
Net Current Assets	**(703)**				**(451)**
Net Investment Assets	**385,023**			**4,894**	**396,965**

Note: The above table has been revised from 10/11 to be SORP compliant. The 10/11 fund account detail has been removed as this is shown elsewhere within the accounts.

15.4 Detail analysis of investments (excluding derivative contracts)

The table below shows an analysis of investment assets between 'UK' and 'overseas' and between 'quoted' and 'unquoted'.

Market Value 31 March 2011 £000		Market Value 31 March 2012 £000
	Fixed Interest Securities	
26,085	Public Sector : UK quoted	26,069
23,053	: Overseas quoted	25,562
49,138		**51,631**
	Equities	
142,736	UK quoted	144,174
11,141	Other European quoted	9,127
153,877		**153,301**
	Pooled Investments	
45,097	Index Linked Public Sector	51,478
22,689	UK	22,864
19,975	Other European	18,726
39,233	American	39,244
13,460	Japanese	14,173
12,882	Other Overseas	14,070
14,087	Developing Markets	12,917
5,797	Property Managed Fund/Units quoted	6,666
4,123	Property Managed Fund/Units un-quoted)	8,276
177,343		**188,414**
380,358	**Total**	**393,346**

15.5 Analysis of derivatives

Futures contracts are used to gain exposure to investment markets without the need to purchase underlying stocks and shares. The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

The derivative instruments, which are used by the fund, are FTSE future contracts, which have been applied to the active and passive sub funds managed by UBS Asset Management. The futures contracts have not been used for speculative purposes but rather to facilitate strategic change in the effective composition of the funds more efficiently than could be obtained through sale or purchase of underlying investments at a point in time. At 31 March 2012, the value of FTSE futures amounted to less than 0.8% of all equity investment in the fund and less than 0.1% of the UBS equity funds.

The following table reflects the fund's exposure to future contracts

Type	Expires	Economic exposure £000	Market value 31 March 2011 £000	Economic exposure £000	Market value 31 March 2012 £000
Uk Equities	One to five years	1,866	1,942	1,237	1,203

Overseas Equities	One to five years	0	0	0	0

15.6 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2012

15.7 Value and realisation of investments

The valuation of investments at year-end incorporates the value of purchases, gains/losses realised on the sale of investments, and changes in the assessed market value of investments retained in the portfolio.

The RREFF property valuation is valued each quarter with the last valuation being at 23 March 2012. Any variations to the valuation between this date and the 31 March 2012 would be minor.

The majority of investments are quoted and in compliance with our Statement of Investment Principles, easily realised in normal circumstances. Property Unit Trusts may be illiquid and realisation protracted but the allocation to Property investment is less than 5% of the total investment portfolio and it is recognised as being a longer-term investment vehicle.

The table below shows investments exceeding 5% of total net assets (All these investments are pooled.)

Security	% Market Value
Aberdeen Global ii Index Linked	13.0%
Aberdeen Global ii Long Dated	6.6%
Aberdeen Global ii Global Aggregate	6.5%
UBS Life Global Optimal Thirds	6.4%
UBS Life USA Equity Tracker	6.2%

The largest single direct holding is in HSBC at 2.04%.

16. Financial Instruments

16.1 Classification of financial instruments

The table below analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading.

31 March 2011				31 March 2012		
Designated at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000		Designated at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
			Financial Assets			
45,097			Pooled Index Linked Securities	51,478		
49,138			Pooled Fixed Interest Securities	51,631		
153,877			Equities	174,437		
122,326			Pooled Equities Investments	101,612		
9,920			Pooled Property Investments	14,188		
1,942			Derivative Contracts	1,203		
	4,375		Cash		3,213	
917			Other Investment Balances	891		
383,217	**4,375**	**0**		**395,440**	**3,213**	**0**
			Financial Liabilities			
(1,866)			Derivative Contracts	(1,237)		
(1,866)	**0**	**0**		**(1,237)**	**0**	**0**
381,351	**4,375**	**0**		**394,203**	**3,213**	**0**

16.2 Net gains and losses on financial instruments

The table below shows net gains on financial assets at fair value through profit and loss.

31 March 2011 £000		31 March 2012 £000
	Financial Assets / Liabilities	
19,089	Fair Value through profit and loss	8,150
443	Loans and Receivables	22
0	Financial Liabilities at Amortised Cost	0
19,532	**Total**	**8,172**

16.3 Valuation of financial Instruments carried at fair value

The valuation of financial instruments can be classified into three levels, according to the quality and reliability of information used to determine fair values. All the financial instruments of the fund are classified as level 1,(fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities). Listed investments are shown at bid prices.

16.4 Fair value of financial instruments and liabilities

The table below compares the carrying value to the fair value of financial assets and financial liabilities.

31 March 2011 Carrying value £000	31 March 2011 Fair value £000		31 March 2012 Carrying value £000	31 March 2012 Fair value £000
		Financial Assets		
321,825	383,217	Fair Value through profit and loss	329,657	395,440
4,375	4,375	Loans and Receivables	3,213	3,213
		Financial Liabilities		
(1,866)	(1,866)	Fair Value through profit and loss	(1,237)	(1,237)
0	0	Financial Liabilities at Amortised Cost	0	0
324,334	**385,726**	**Total**	**331,633**	**397,4163**

17. Nature and Extent of Risks Arising From Financial Instruments

17.1 Risk and risk management

The fund's main long-term risk is that the fund's assets will fall short of its liabilities of paying benefits to its members. Investment risk management aims to reduce the risk of the overall reduction of the fund while increasing returns. To achieve this, the fund is diversified through its asset allocation thereby reducing its price, currency and interest rate risks. Liquidity risk in the fund is managed by monitoring the cash flow forecast of the fund and ensuring that there is sufficient cash to pay its benefits payable obligations.

17.2 Market risk

The fund is exposed to market risk from its investment activities especially through its equity holdings. Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risks on equity investments.

17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. The London Borough of Merton asset allocation is predominantly equities and bonds therefore riskier assets in the fund such as equities display greater potential volatility than bonds.

Asset Type	Value at 31 March 2012 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	3,213	0.0%	3,213	3,213
Investment portfolio assets				
Total Equities	275,261	15.1%	316,908	233,614
Total Bonds	51,631	6.2%	54,832	48,430
UK Index Linked	51,478	7.5%	55,318	47,638
Property	14,942	4.4%	15,592	14,292
Income Due	891	0.0%	891	891
Total Assets	**397,416**		**446,754**	**348,078**

The potential volatilities are consistent with one standard deviation movement in the change in value of the assets over the three years. This was applied to the 31 March asset mix as follows:

17.4 Other price risk

Potential price changes are based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on fund asset allocations. The table below shows the volatility between the asset classes invested in.

Asset Type	Potential market movements (+/-)
Equities	15.1%
Bonds	6.2%
UK Index Linked	7.5%
Cash	0.0%
Property	4.4%

17.5 Interest rate risk

Generally fixed interest rate investments are subject to interest rate risks, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. As at 31 March 2012, the fund's fixed rate investments were in pooled investments.

17.6 Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the (£UK). The majority of foreign equities in the UBS portfolio are priced in (£UK) thereby reducing currency risk fluctuations.

The table below shows the currency exposure by asset type as at 31 March 2012.

Asset Type	Value at 31 March 2012 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	12,212	9.5%	13,371	11,053
Overseas Bonds	25,562	9.5%	27,988	23,137
Total Overseas Assets	**37,774**	**9.5%**	**41,359**	**34,190**

The table below calculates the aggregate currency exposure within the fund as at 31 March 2012 In doing this we have applied the single outcome to all non-UK assets where the manager has not priced the security in (£UK) and multiplied the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

Currency	Value at 31 March 2012 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	437	8.3%	474	401
EURO	8,010	8.4%	8,680	7,340
Norwegian Krone	217	10.5%	240	194
Swedish Krona	1,028	10.2%	1,133	923
Swiss Franc	2,391	10.2%	2,636	2,146
US Dollar	25,690	9.8%	28,196	23,185
Total	**37,774**	**9.5%**	**41,359**	**34,190**

17.7 Credit risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria.

The average long term credit rating in the bond portfolio is AA+ as at 31 March 2012, while the fund's cash balance under its treasury management arrangements as at 31 March 2012 was held with Lloyds bank with credit a rating of A.

17.8 Liquidity risk

The Council has immediate access to its pension fund cash holdings to enable it meet its financial obligations when due. Within the bond portfolio, the fund is permitted to hold up to 10% of the fund in cash for this reason and to ensure that the fund has available an element of cash to ensure that settlement of the segregated securities traded in the portfolio do not take the cash accounts overdrawn.

Management prepares quarterly cashflow forecasts to understand and manage the timing of the fund's cash; this is reviewed by the Pension Panel on a quarterly basis.

18. Funding Arrangements

18.1 Actuarial position

The assets and liabilities of the Fund are valued at three-yearly intervals by the Council's Actuary (Barnett Waddingham LLP). The main purpose of the actuarial valuation is:

(i) to determine the accrued position of the fund (for which the valuation of assets is based on the 'assessed value approach') and;
(ii) to establish appropriate contribution arrangements required to support accruing benefits (for which the 'projected unit' actuarial method is adopted).

18.2 Actuarial assumption

Barnett Waddingham LLP carried out the last actuarial valuation in 2010. This gave an assessment of the value of the fund as at 31 March 2010. The results of the actuarial valuation showed that the assessed value of assets held by the Fund at 31st March 2010 was £343.5m, whilst the liabilities accrued in respect of pensionable service were £410.7m. The assessed actuarial value of £343.5m was different to the market value of the assets at 31 March 2010 (shown in Note 18.5) because the actuarial value is based on the average asset value over 6 months straddling the valuation date.

The valuation of the Fund is underpinned by 'economic' and 'statistical' assumptions. The major 'economic' assumptions relate to the rate of price inflation, general pay escalation and the rate of dividend growth. The 'statistical' assumptions cover matters such as future rates of withdrawal and retirement from service, rates of mortality, the proportion of members married and the progression of pensionable pay from age to age, attributable to increasing responsibility and promotion.

The table below shows assumptions used in the actuarial valuations.

Financial Assumptions	2007		2010	
Investment Return	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Equities	7.6%	4.3%	7.4%	3.9%
Gilts	4.7%	1.3%	4.5%	1.0%
Bonds & Property	5.4%	2.0%	5.6%	2.1%
Index Linked Gilt yields	3.4%			
Equity Risk Premium	3.0%			
Equity Return	7.6%			
Discount Rate	6.9%	3.5%	6.7%	3.2%
Pay Increases	4.9%	1.5%	5.0%	1.5%
Price Inflation	3.4%		3.5%	
Pension Increase	3.4%		3.0%	(0.50)%

18.3 Funding policy

Regulations require the Actuary to set the employer's contribution rate for the authority and Scheduled and Admitted Bodies, so that it is sufficient to meet 100% of existing and prospective liabilities including pension increases. The funding objective is to ensure that the Scheme's assets and income are adequate to finance scheme members' benefits when they fall due.

The actuary has recommended contribution rates that recover any deficiency in the Fund over the next fifteen years, and this is consistent with the funding strategy.

18.4 Funding position

The overall funding level declined from 90.5% in 2007 to 84% in 2010.
Whilst investment returns were less than assumed this was slightly offset by CPI changes and other assumption changes.

The table below shows the funding level and deficit for the past two triennial valuations.

	2007 Valuation	2010 Valuation
Funding Level %	90.50%	84.00%
Funding (Deficit) £m	**(33.5)**	**(67.2)**

The funding deficiency of £67.2 million at the time of the 2010 valuation was equivalent to 16% of the accrued liabilities, compared to 10% as at the time of the 2007 valuation.

The actuary carried out an interim valuation as at 31 March 2012. At this date the funding level was 85% and the funding deficit (£70.4m).

The table below shows the reconciliation of past service position.

	Funding Position £m	
Deficit at 2007 Valuation	**(34)**	
New Liabilities	(50)	
Contributions Paid		59
Interest on Deficit	(6)	
Asset Gain/Loss	(70)	
Liability Gain/Loss	(28)	
Experience		3
Change in Assumptions/CPI		59
Deficit at 2010 Valuation	**(67)**	

The table below shows the past service funding position.

	31 March 2010 £000	
Smoothed Asset Value		**343,541**
Past Service Liabilities		
Active Members	139,683	
Deferred Pensioners	59,740	
Pensioners	211,227	
Value of Scheme Liabilities		410,650
Surplus (Deficit)		**(67,109)**
Funding Level		**84%**
Employer Contribution Rates		**% of Payroll**
Future Service Contribution Rate		14.10%
Deficit Recovery (15 years)		7.30%
Total Contribution Rate		**21.40%**

The funding position is a statement that encapsulates the liability to finance pension payments over many years, and does not imply that there is any difficulty in financing them in the short term. Investments in support of the Local Government Pension Scheme are long-term investments, and there is an expectation that over the long term the value of the fund will ride-out the cyclical movements of the investment markets, and support an adequate funding level.

19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS 26 sets out the measurement and disclosure principles for reporting retirement benefit plans. For this purpose the Code of Practice requires that actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for funding purposes.

In order to meet this requirement, the Fund's actuary has carried out an additional assessment of the Fund as at 31 March 2012, using a valuation methodology that is consistent with IAS 19.

The value of the Fund's promised retirement benefits as at 31 March 2012 was £570.9m

Year Ended	31/03/11 £m	31/03/12 £m
Present value of promised retirement benefits	481.5	570.9

20. Current Assets

Debtors	2010/11 £000	2011/12 £000
Contributions due	1,123	1,139
Cash in hand	0	2,894
Current Assets	**1,123**	**4,033**

21. Current Liabilities

Creditors	2010/11 £000	2011/12 £000
Cash overdrawn	(1,826)	(113)
Current Liabilities	**(1,826)**	**(113)**

22. Provision for Bulk Transfer

The provision relates to the transfer of the Council's HR function to the LB Sutton. This transfer was disclosed in the 10/11 accounts as a contingent liability as no reliable estimate of the transfer value was possible at that time.

Provisions	2010/11 £000	2011/12 £000
Provision for bulk transfer to LB Sutton	0	(4,371)
Current Provision	**0**	**(4,371)**

23. Additional Voluntary Contributions

The scheme provides for members to pay Additional Voluntary Contributions (AVCs) to increase their benefit entitlement at retirement, subject to HMRC limits. Under Regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No: 3093), AVCs are not included in the pension fund accounts but are paid over to and invested by specialist AVC providers, Prudential PLC and Bank of Ireland independently of the London Borough of Merton Pension Fund.

The amount of additional voluntary contributions paid by members during 2011/12 to AVC schemes outside the authority's responsibility was £0.267m (£0.15m at 31 March 2011). The external providers have reported that at 31 March 2012 the total value of accumulated AVCs is £1.125m (£1.14m at 31 March 2011).

24. Related Parties

Related parties to the pension fund include: -

i) **The Pension Fund's Investment Managers** who work under contract arrangements.

ii) **The London Borough of Merton**, up until December 2011 held cash balances on behalf of the pension fund pending transfer to external fund managers. (This was a function of Pension Scheme procedure and not part of a loan arrangement initiated by the London Borough of Merton and the Pension Fund). After December 2011 a separate pension fund bank account was opened which holds pension fund cash balances.

iii) **The Admitted and Scheduled bodies** who make employer contributions to the fund.

iv) **Local authority elected members and senior management officers** who sit on the Pension Fund Advisory Panel.

There are two serving Councillor members on the Pension Fund Advisory Panel who are contributors to the Pension Fund. In addition, there is one Pensioner representative on the Panel who is in receipt of pension benefits.

The remuneration of management personnel holding key positions in the financial management of the Pension Fund is shown in Disclosure Note 36 to the council's statement of accounts.

There have been no related-party disclosures, or material declarable transactions with the Pension Fund during the financial year other than administrative services. The latter were undertaken by the Council on behalf of the Pension Fund, at a cost, of £0.186M (£0.339m in 2010/11).

25. Contingent Liabilities

There is a contingent liability in respect of the bulk transfer for South Thames College (formerly Merton College). This transfer is particularly difficult to quantify at this stage as neither the data nor the actuarial basis for quantifying the liability have yet been agreed between the parties.

Statements of Responsibilities

The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Corporate Services.

- To manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.

- To approve the Statement of Accounts.

1.1. The Director of Corporate Services' Responsibilities

The Director of Corporate Services is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Corporate Services has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the local authority Code of Practice.

The Director of Corporate Services has also:

- Kept proper accounting records which were up to date;

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

1.2 Certification of Responsible Finance Officer

I hereby certify that the statement of accounts on pages 6 to 133 give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2012.

C Holland
Director of Corporate Services
27th September 2012

Further information about the accounts is available from:

Director of Corporate Services
8th Floor

Merton Civic Centre
London Road
MORDEN
Surrey
SM4 5DX
Or alternatively, please ask for Stephen Bowsher on 020 8545 3531.
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Independent Auditors Report

1. Independent auditor's report to the Members of London Borough of Merton

Opinion on the Council accounting statements

I have audited the accounting statements of London Borough of Merton for the year ended 31 March 2012 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Merton in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Section 151 Officer and auditor

As explained more fully in the Statement of the Director of Corporate Services' Responsibilities, the Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of London Borough of Merton's affairs as at 31 March 2012 and of its income and expenditure for the year then ended; and

■ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies. This report is made solely to the members of London Borough of Merton in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Corporate Services and auditor

As explained more fully in the Statement of the Director of Corporate Services' Responsibilities, the Director of Corporate Services is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

■ give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
■ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters
In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources Authority's responsibilities
The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities
I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission. I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion
I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

■ securing financial resilience; and
■ challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, London Borough of Merton put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of the London Borough of Merton in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andrew Mack
District Auditor, Audit Commission
1st floor, Millbank Tower, Millbank
London
SW1P 4HQ
September 2012

Glossary

ACCOUNTING POLICIES
Rules and practices followed in drawing up the accounts.

ACCOUNTING CODES OF PRACTICE
These are designed to support consistent standards of financial accounting in local authorities. There are two accounting codes :-

The Code of Practice on Local Authority Accounting supports consistent financial reporting at the level of the formal statements of accounts.

The Service Reporting Code of Practice (SerCOP) supports consistent financial reporting between local authorities below the level of the formal statement of accounts. In particular the SerCOP is designed to support consistency and comparability in reporting the cost of individual services and activities.

The IFRS based Code of Practice requires that the analysis of services in the Consolidated Revenue Account should follow that prescribed by the SerCOP.

ACCRUALS
The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid. This concept is reflected in the accounts by the inclusion of debtors and creditors.

ACTUARIAL GAINS AND LOSSES
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

a. Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or

b. The actuarial assumptions have changed.

APPROPRIATIONS
The assignment of revenue balances for specified purposes.

ASSETS
These are rights or access to future economic benefits controlled by an entity as a result of past transactions or events.

BALANCES
Balances are maintained to meet expenditure pending the receipt of income and to provide a cushion against expenditure being higher or income lower than expected.

Contributions to balances can be either a planned contribution from the revenue budget or a transfer of any revenue surplus at the year end. The maintenance of an appropriate level of balances is a fundamental part of prudent financial management.

BUDGET
Statement of the spending plans for the year.

CAPITAL ADJUSTMENT ACCOUNT (CAA)
This reserve is debited with the historical cost of acquiring, creating or enhancing fixed assets over the life of those assets and with the historical cost of deferred charges. It is credited with resources set aside to finance capital expenditure. Where there is a credit balance, capital finance is being set-aside at a faster rate than resources have been consumed. Where there is a debit balance, fixed assets are being consumed in advance of their being financed.

CAPITAL CHARGES
Charges to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

CAPITAL EXPENDITURE
Expenditure on the acquisition of a fixed asset or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.

CAPITAL RECEIPTS DEFERRED
Amounts receivable in the future from mortgages granted on the sale of Council houses.

CAPITAL RECEIPTS
Proceeds from the sale of fixed assets and repayments of capital grants and loans. These are divided into reserved and usable parts.

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)
The Institute produces standards and codes of practice that must be followed in preparing the Council's financial statements.

CLG
This is the Government department for Communities and Local Government. This was formerly called the Office of the Deputy Prime Minister (ODPM).

COLLECTION FUND
This is a statutory 'ring fenced' account. It records income and expenditure on Council Tax, Non Domestic Rates, payments to the precepting authorities and transfer to the Council's General Fund.

COMMUNITY ASSETS
Assets that the local authority intends to hold in perpetuity, which have no determinable useful life and which may have restrictions on their disposal. Examples include parks and historic buildings.

COMPREHENSIVE SPENDING REVIEW (CSR)

The CSR is a governmental process carried out by HM Treasury which sets out fixed three-year departmental expenditure limits and through public sector service agreements defines key service improvements.

CONTINGENT ASSETS AND LIABILITIES

A contingent asset is a possible asset, which may arise in the future if certain events take place. A contingent liability is a possible loss or charge, which may arise in the future if certain events take place. In both cases, these events may not be wholly within the control of the Authority.

Contingent liabilities are not recognised in the accounts but should be disclosed by way of a note if there is a possible obligation which may require payment or a transfer of economic benefits.

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. It has two elements - corporate management and democratic representation and management. The activities within the corporate and democratic core are in addition to those which would be carried out by a series of independent, single purpose bodies managing the same services. There is, therefore, no logical basis for apportioning these costs to services.

CORPORATE GOVERNANCE

Corporate Governance is the system by which local authorities direct and control their functions and communicate to their communities.

COUNCIL TAX

This is the main source of local taxation to local authorities. It is levied on households within the authority's area and the proceeds are paid into the Collection Fund for distribution to precepting authorities and to the authority's own General Fund.

CREDIT APPROVAL

The permission to borrow given to each local authority annually by the Secretary of State. Local authorities can obtain supplementary credit approvals during the year for particular projects.

CREDITORS

Money owed by the Council, which is due immediately or in the short term. Accordingly, it does not include money on taxation to the Council. Creditors are an example of the concept of accruals.

CURRENT SERVICE COST (PENSIONS)

The increase in the present value of the liabilities earned by employees in the current period in a defined benefit scheme.

CURTAILMENT COSTS
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

a. termination of employees' services earlier than expected, for example, as a restructuring of operations
b. termination of, or amendment to, the terms of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

DEBTORS
Money that is due to the Council but which has not yet been received. Debtors are an example of the concept of accruals.

DEFERRED CONSIDERATION
This is the value of buildings transferred to NewSchools under the PFI contract and will be amortised over the life of the contract.

DEFINED BENEFIT SCHEME
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

DEFRA
DEFRA (The Department for the Environment, Fisheries and Rural Affairs)

DEPRECIATION
Depreciation is a charge to the revenue account to reflect the reduction in the useful economic life of a fixed asset. The reduction in the value of a fixed asset in the balance sheets is in line with the expected useful life.

DISCRETIONARY BENEFITS
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the Authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or The Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

EMOLUMENTS
All sums paid to or receivable by an employee, and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash.

EXCEPTIONAL ITEMS
Material items, which derive from events or transactions that fall within the ordinary activities of the authority, but which are not expected to recur frequently or regularly.

Exceptional items should be shown as part of the Net Cost of Services to which they relate or on the face of the Income and Expenditure Account if that degree of prominence is necessary to give a fair representation of the accounts.

FAIR VALUE
The fair value is the value of an asset or liability in an arms length transaction between unrelated, willing and knowledgeable parties. In practice this is often taken as market value but there are acceptable approximations, which can be used when there is no market for the asset or liability. In relation to assets the recorded value would be less, where applicable, any grants receivable towards the purchase or use.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT
This account provides a balancing mechanism between the different rates at which gains and losses are recognized under the SORP and are required by statute to be met from the General Fund. The account is designed to hold the difference between the book value and fair value. It is not used at present because the sums involved are not significant.

FINANCE LEASE
A finance lease is one that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. It should be presumed that such a transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all (normally 90% or more), of the fair value of the leased asset.

FINANCIAL YEAR
The financial year runs from the 1st April to the following 31st March.

FINANCIAL INSTRUMENT
A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another. In practice, this covers both assets and liabilities and includes bank deposits, investments, debtors, loans and advances, debt premiums, creditors and borrowings.

FIXED ASSETS
Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year. These can be tangible or intangible.

FRED
Financial Reporting Exposure Drafts. These are proposed accounting standards issued by the ASB for comments. The final accounting standard is released once the comments have been incorporated or addressed.

FRS
Financial reporting standards: these replace statements of standard accounting practice (SSAP) and generally go into much more depth. Adherence to both FRSs and where appropriate SSAPs, are essential to demonstrate compliance to the SORP which is fully convergent with UK GAAP.

FTSE 100
This is the index of the top 100 UK listed companies by market capitalisation.

GENERAL FUND
The main fund of the Council, from which all expenditure is met and all income is paid, with the exception of those items, which by statute have to be taken to some other account.

GOVERNMENT GRANTS
Financial assistance by government and other bodies, in the form of cash transfers to an authority in return for compliance with certain conditions relating to the activities of the authority.

GROSS EXPENDITURE
The total expenditure of a fund or account.

HERITAGE ASSETS
These are a class of assets which were formerly categorized as Community Assets. These assets are deemed to contribute to a nation's society, knowledge and/or culture.

HOUSING REVENUE ACCOUNT (HRA)
This is a statutory account that shows all income and expenditure relating to the provision, management and maintenance of the Council's housing stock. The government defines the items of income and expenditure that must be included in the account. This account is ring-fenced under the Local Government and Housing Act 1989.

IFRS
International Financial Reporting Standards: these are the standards that have superseded national accounting standards. The Code of Practice which has replaced the SORP is fully IFRS based.

IMPAIRMENT
The loss of value in a fixed asset arising from physical damage, deterioration in the quality of service provided by the asset or from a general fall in prices.

INCOME AND EXPENDITURE ACCOUNT
Accounts which show all money receivable or payable by the Council in the accounting period to which they relate. Accounts that record receipts and payments are converted to income and expenditure by the inclusion of debtors and creditors.

INFRASTRUCTURE ASSETS
Fixed assets that have no realistic expectation of being sold but are retained to deliver core services e.g. roads, drainage etc. and in respect of which expenditure cannot be recovered through disposal.

INTANGIBLE ASSETS
Intangible assets are defined in FRS10 as 'non financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through

custody and legal rights'. As such, they may provide the authority with access to future economic benefits which are controlled by the local authority.

INTEREST COST (PENSIONS)
For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

INVESTMENTS (PENSION FUND)
The investments of the pensions fund will be accounted for in the statements of that fund. However, authorities (other than district councils in Northern Ireland) are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

INVESTMENTS (NON-PENSION FUND)
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments, other than those in relation to the pensions fund that do not meet the above criteria should be classified as current assets.

JOINT ARRANGEMENT WHICH IS NOT AN ENTITY (JANE)
A JANE is a contractual arrangement under which participants engage in joint activities but which is not an entity.

LEASING
This facility is a means to obtain the use of vehicles, plant and computer equipment without actually owning these items.

LEVY
An amount levied by a local authority or other statutory body which is paid by the Council.

LIABILITIES
An entity's obligations to transfer economic benefits as a result of past transactions or events.

LOCAL AREA AGREEMENT (LAA)
A local area agreement is a set of priorities for a local area agreed between central government and a local area, which usually comprises of a local authority, the local strategic partnership (LSP) and other key partners. The priorities have objectives and targets, and funding to achieve these comes from central government.

MATERIALITY
Materiality sets the threshold for determining whether an item is relevant. This is defined as: an item of information is material to the financial information if its

misstatement or omission might reasonably be expected to influence the economic decisions of users of those financial statements, including their assessments of management's stewardship. Whether information is material will depend on the size and nature of the item in question judged in the particular circumstances of the case.

MAJOR REPAIRS ALLOWANCE (MRA)
This estimated average annual cost of maintaining the condition of the housing stock based upon each authority's own mix of dwellings. The Major Repairs Reserve records the unspent balance of HRA subsidy in the form of the MRA

MINIMUM REVENUE PROVISION (MRP)
This the minimum amount which must be charged to the authority's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government and Housing Act 1989.

NET ASSETS
The Net Assets of the authority is the amount that the authority owns (its assets) less the amount that it owes (its liabilities).

NET BOOK ASSETS
The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET CURRENT REPLACEMENT COST
The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET REALISABLE VALUE
The open market value of an asset in its existing use (or open market value in the case of non-operational asset), less the expenses required realising the asset.

NET WORTH
The Net Worth of the authority shows how the net assets of the authority are allocated between usable resources, resources that have been set aside to finance capital expenditure, unrealised gains from increases in asset values and the reserves which are needed to manage the complexities of local authority accounting.

NON-DISTRIBUTED COSTS
These are overheads from which no user now benefits and these costs should not be apportioned to services.

NON-DOMESTIC RATE (NDR)
A levy on businesses based on national 'rateable value' of the premises occupied. NDR is collected by the Council in line with national criteria, paid into a national pool and then redistributed to all local and police authorities on the basis of population.

NON-OPERATIONAL ASSETS
Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of these assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

OPERATIONAL ASSETS
Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

PAST SERVICE COST
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

POOLED VEHICLES
A pooled vehicle is a single investment whose value and performance is the aggregate of a number of separate investments held within the pooled arrangement. Pooled investments are undertaken to improve the diversification and efficiency of investment activity, particularly where a similar spread of segregated investments would incur higher management costs, and be less economic.

POST BALANCE SHEET EVENT
These are events which arise after the end of the accounting period. They can be divided into

- Adjusting events, which provide further evidence of conditions that existed at the end of the accounting period and that may require changes to the accounts.

- Non Adjusting Events, which are indicative of conditions that arose subsequent to period end, that are reported by way of a note to the accounts.

PRECEPTS
An amount collected by the Council as part of the Council Tax on behalf of another statutory body.

PRIVATE FINANCE INITIATIVE (PFI)
PFI contracts are agreements with private sector organisations to refurbish, maintain and operate fixed assets on behalf of public sector organisations such as local authorities.

PRIOR PERIOD ADJUSTMENTS
Prior period adjustments are material adjustments relating to the accounts of previous years and which arise from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. Prior period adjustments do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PROVISIONS
Amounts set aside for any liabilities or losses which are likely to be incurred, but which are uncertain as to the amounts or the dates on which they will arise.

RESERVES
These are amounts set aside for specific purposes. The Council has discretion in whether it wishes to set aside these amounts as distinct from sums set aside in provisions.

RESIDUAL VALUE
This is the estimate, based on current prices, of the increase in market value of the buildings transferred to NewSchools under the PFI contract.

REVALUATION RESERVE
The Revaluation Reserve records increases and reductions in the value of fixed assets when compared to their original book value. Reductions in value can be offset against accumulated revaluation gains before they are charged to the income and expenditure account.

REVENUE EXPENDITURE
Expenditure incurred on day to day running costs and confined to accounts within one financial year.

REVENUE EXPENDITURE FUNDED BY CAPITAL RESOURCES UNDER STATUTE
This is expenditure which is classified as revenue expenditure but which can be funded from capital resources under statutory requirements. This expenditure was called deferred charges under the 2007 SORP.

SCHEME LIABILITIES
These are the liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

SETTLEMENT COSTS
An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- A lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

STATEMENT OF RECOMMENDED PRACTICE (SORP)

This is the authoritative guidance on the application of accounting standards and incorporates UK GAAP. (See Accounting Codes of Practice). The SORP has now been superseded by the IFRS based Code of Practice.

STOCKS

The amount of unused or unconsumed supplies held in expectation of future use.

SUPPORT SERVICES

These are services that are not statutory local authority services but which give support to those services.

SUPPORTED CAPITAL EXPENDITURE

This is the term for central government support for local authority capital expenditure with effect from 1st April 2004. Under the system, central government provides allocations to replace the previous system of credit approvals. The allocations enable services to borrow to finance capital schemes. The services will also receive revenue funding through the revenue support grant to pay for the borrowing.

UK GAAP

UK Generally Accepted Accounting Principles cover accounting practices that are regarded as permissible by the accounting profession. These practices may be laid down in accounting standards and/or legislation (such as Local Government Finance Legislation) but it also includes accounting practices that are outside the scope of accounting standards but are generally accepted by practitioners as legitimate. Local Authority accounts are now required to be IFRS compliant.

USEFUL LIFE

This is the period over which the local authority derives benefit from the use of a fixed asset.

VESTED RIGHTS

In relation to a defined benefit scheme, these are: -

a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
b) for deferred pensioners, their preserved benefits;
c) for pensioners, pensions to which they are entitled.

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1. Analysis of adjustments made to the 2011/12 Core Statements

No.	**Adjustment Debit £'000**	**Adjustment Credit £'000**	**Accounting entries**	**Explanation of adjustment**	**Type of adjustment**
1	839	839	<u>Balance Sheet</u> CR Current Liabilities- Short Term Creditors DR Other Long Term Liabilities	The Balance Sheet contains an account balance "Other Long-Term Liabilities", within which there are long term liabilities relating to (a) the schools' PFI contract (covering four of the original six schools) and (b) the partial termination arrangements (which cover the remaining two schools, which became academies). There are repayment schedules associated with both of these and these schedules are set out in Note 43 "Private Finance Initiative and Similar Contracts". The repayments due in 2012/13 as part of these schedules should be classified as short -term liabilities in the 2011/12 Balance Sheet. Thus, the figure of £0.839m is the sum of (a) £0.485m (due in 2012/13 in respect of the Partial Termination liability) and (b) £0.354m (due in respect of the PFI Schools liability in 2012/13).	Presentation only. No change to reserves.

No.	Adjustment Debit £'000	Adjustment Credit £'000	Accounting entries	Explanation of adjustment	Type of adjustment
2	545	545	Income and expenditure DR CIES- Cost of Services CR CIES- Taxation and non-specific grant income Cash Flow Statement DR Adjust for items in the net surplus or deficit on the provision of services that are investing or financing. CR Investing Activities	Under IFRS accounting, the Income and Expenditure account contains grant income relating to capital expenditure. This income is accounted for within the Cost of Services when it is funding revenue expenditure funded from capital under statute (REFCUS) and as part of Taxation and non-specific grant income when it is funding proper capital expenditure. An adjustment is necessary because the amount of grant income relating to REFCUS was overstated by £0.545m and the amount of grant income relating to proper capital expenditure was understated by the same amount. Total grant income relating to capital expenditure (both proper capital expenditure and REFCUS) is unchanged.	Presentation only. No change to reserves.

No.	Adjustment Debit £'000	Adjustment Credit £'000	Accounting entries	Explanation of adjustment	Type of adjustment
3.	294	294	Balance Sheet Cr Current Liabilities- Short Term Creditors Dr Assets- Short Term Debtors	The "Other Long Term Liabilities" balance also includes a finance lease liability where the Council is a lessee. The amount shown under "Other Long Term Liabilities" is the amount repayable after 2012/13. The amount due in 2012/13 (£0.294m) should be recorded under Short Term Creditors but because of a code structure error in the Chart of Accounts, it appeared under Short Term Debtors in the draft accounts. The code structure has been corrected.	Presentation only. No change to reserves.
4.	433	433	Balance Sheet CR Long Term Liabilities- Capital Grants Receipts in Advance Dr Usable Reserves- Capital Grants Unapplied Reserve Income and expenditure DR Taxation and Non Specific Grant Income Movement in Reserves Statement CR Capital Grants Unapplied Reserve	A grant received from the Primary Care Trust was applied to finance capital expenditure. As the conditions for applying this grant had not been met at the Balance Sheet date, the income should not have been recognised in 2011/12. This means that the figure for income to finance capital expenditure was overstated. This income is transferred to the Capital Grants Unapplied Reserve through the Movement in Reserves Statement. Consequently, the reduction in income is reflected in a corresponding reduction in the Capital Grants Unapplied Reserve	Reduction in Usable Reserves- Capital Grants Unapplied Reserve. .

No.	Adjustment Debit £'000	Adjustment Credit £'000	Accounting entries	Explanation of adjustment	Type of adjustment
			Cash flow statement- Net (surplus) on services is reduced by £0.433m. Compensating increase in the next line "Adjustment to the net surplus on the provision of services for on cash movements". There is no effect on cash itself	and a compensating increase in the Capital Grants Receipts in Advance, the liability account where grants are held pending conditions being met.	
5.	1,131	1,131	Balance Sheet CR Current Liabilities-Provision Dr Usable Reserves Income and expenditure DR Cost of Services Movement in Reserves CR Transfer from earmarked General Fund reserve-£0.539m CR General Fund Balances-£0.592m	Provision for remaining single status liabilities, which relate to the Park Rangers (£0.995m), Children's Social Work Support Officers (£0.115m) and Brightwell staff (£0.021m).	Reduces earmarked revenue reserves and General Fund balances by a total of £1.131m. This is composed of a reduction in earmarked revenue reserves (£0.539m) and in General Fund balances (£0.592m).

No.	Adjustment Debit £'000	Adjustment Credit £'000	Accounting entries	Explanation of adjustment	Type of adjustment
			Cash flow statement Net (surplus) on services is reduced by £1.131m and there is a compensating increase in the next line "Adjustment to the net surplus on the provision of services for on cash movements". There is no effect on cash itself.		
6	463	463	Balance Sheet CR Current Liabilities-Provision DR Usable Reserves-earmarked revenue reserves Income and expenditure DR Non Distributed Cost Movement in Reserves CR Transfer from earmarked General Fund reserve Cash flow statement Net (surplus) on services is	Municipal Mutual Insurance (MMI) did not have sufficient solvency to trade as an Insurance company and ceased its underwriting operations in 1992. Most of MMI's public sector clients, including this authority, elected to participate in the "Scheme of Arrangements" which means that they may have to pay back part of all claims for which they have received settlement. A recent Supreme Court ruling makes it more likely rather than less likely that the Scheme of Arrangements will be triggered.	Reduces earmarked revenue reserves by £0.463m.

No.	Adjustment Debit £'000	Adjustment Credit £'000	Accounting entries	Explanation of adjustment	Type of adjustment
			reduced by £0.463m and there is a compensating increase in the next line "Adjustment to the net surplus on the provision of services for on cash movements". There is no effect on cash itself.		

2. Analysis of adjustments made to the 2011/12 Pension Accounts (Net Assets and Fund Account)

No.	Adjustment Debit £'000	Adjustment Credit £'000	Account	Explanation of adjustment	Type of adjustment
1.	4,371	4,371	Fund Account DR Transfer Values Net Assets Statement CR Current Liabilities-Provision	Provision for bulk transfer to London Borough of Sutton in respect of Shared HR service. This is also a change in accounting policy. The policy on Transfers Values has been amended to provide for accruals for bulk transfers.	Reduce Net Assets by £4.371m
2.	113	113	Net Assets Statement DR Current Assets-Cash and bank CR Current Liabilities-Bank Overdraft	At the year end, the sum of £0.113m was held in the General Fund bank account on behalf of the Pension Fund. This sum should be shown as an overdraft in the Pension Fund accounts.	Presentation No change to Net Assets

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APPENDIX 4

Annual governance report

London Borough of Merton

Audit 2011/12

Contents

Key messages

I summarise here the findings from my 2011/12 audit which is now complete. I include messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

I completed my detailed procedures on the financial statements by the end of August and as at 17 September 2012 I expect to issue an unqualified audit opinion on your 2011/12 financial statements.

Officers submitted the financial statements to me by the agreed deadline and I have identified no material amendments to the version you approved on 28 June 2012. The Council have corrected the 6 errors I have identified. One of the errors has reduced the General Fund balance by £592,000. The absence of material amendments and recommendations for action is indicative of the improvements in the quality of the financial statements compared to 2010/11. This is reinforced by the provision of more timely and comprehensive supporting working papers this year.

Value for money (VFM)

As at 17 September I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. The Council continues to have an effective framework for managing its finances. There is a clear focus on maintaining a sustainable position in the medium term. Future levels of funding are however uncertain and the Council will need to remain strongly focused on the delivery of its Merton 2015 Programme. It will also need to update its policy on the use of non earmarked reserves and to improve the consistency of budget setting and monitoring across the Council.

Certificate

I am currently unable to issue my certificate as I have not yet completed my procedures on the WGA consolidation pack.

I expect to complete the outstanding work and report my findings to management by 21 September 2012. I plan to issue my certificate by 28 September 2012.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I am aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat. I communicated this matter to the Chief Executive and Director of Corporate Services as soon as I identified the potential threat.

Table 1: **Threats and safeguards**

Threat	Safeguards
Two members of my engagement team are employees of the firm that has identified a conflict with accepting the 2012/13 external audit appointment. This represents a potential threat to the independence of my engagement team.	1. The work of these team members has been reviewed by Audit Practice staff. 2. These team members have made no decisions in respect of the audit of the financial statements. 3. These team members have had no contact with members of the GP Committee or the individual Council Member to whom the identified conflict of interest applies. 4. The Member concerned does not have any executive responsibilities at the Council.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2011/12.

I ask the General Purposes Committee to:

- take note of the adjustments to the financial statements included in this report at Appendix 2; and
- approve the letter of representation at Appendix 3, on behalf of the Council before I issue my opinion and conclusion.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

As at 17 September 2012, my audit is complete with the exception of issuing my assurance statement in respect of the Council's Whole of Government Accounts consolidation pack which I expect to do by 28 September.

I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Corrected errors

I have identified six errors in the primary financial statements, that is the Comprehensive Income and Expenditure Statement (CIES) and the Balance Sheet. The Council have corrected all of these errors and I include details in Appendix 2. The net impact of these errors is to reduce the General Fund balance from £14,567,000 to £13,975,000. This net impact was due to one of the six errors identified. The Council's pre-audit financial statements included a reserve of £539,000 relating to single status. Following auditor enquiry the Council accepted that it needed to recognise a total liability of £1.1 million as a provision. As a result the Council appropriated the existing reserve to provisions and recognised the full liability within its financial statements.

Another error related to a liability of £462,500 relating to Municipal Mutual Insurance (MMI). MMI was the predominant insurer of public bodies that ceased its underwriting operations in 1992 of which Merton was a member. Following a Supreme Court ruling at the end of March 2012, all members of MMI became liable for a share of £72 million. The Council has agreed that the circumstances of this event meet the criteria for recognising a provision in the financial statements. In response the Council has appropriated £462,500 from the original Insurance Fund of £2,785,000 (Note 8 of the financial statements) and recognised the provision in Note 23 of the financial statements.

The remaining four errors had no net impact on the primary financial statements.

In addition to the above, the Council agreed to include restated 2010/11 opening balances in the Balance Sheet following the correction of a prior period error. Prior to commencement of my audit, the Council identified that in 2006/07 it had overvalued an item of land associated with a school. In that year, the valuation exercise was undertaken by an external valuation company. The Council determined that the external valuation company applied an incorrect valuation basis. To correct the error the Council has included a prior period adjustment of £62,491,091 in the 2011/12 financial statements. I have reviewed both the amount of the adjustment and the Council's judgement that it should be treated as a prior period adjustment and I have concluded that both are appropriate.

Note 36 of the financial statements include disclosure of exit packages agreed with staff in 2011/12. This is a new statutory disclosure requirement for 2011/12. Exit packages include all redundancy costs, whether arising due to voluntary or compulsory redundancy, and any other relevant departure costs. My audit testing identified discrepancies in the classification of employees between compulsory and other. As a result the Council has revised the original note and I am now satisfied that the note accurately reflects the split between compulsory and other redundancies to which the Council was committed to in 2011/12.

I have also identified several other errors to the disclosure notes which management have now corrected. None are significant so I have not included them in this report.

Significant risks and my findings

I reported to you in my March 2012 Audit Plan the one significant risk that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against that risk.

Table 2: **Risks and findings**

Risk	Finding
Valuation of property, plant and equipment (PPE) - The Council is required to value PPE at fair value (with some exceptions). The valuation of PPE is a specialist area requiring complex estimation techniques. It is also highly material to the financial statements. In 2010/11 I identified some areas for the Council to improve its valuation process and documentation of procedures. Errors in valuation can lead to material misstatements.	I undertook audit procedures on the valuations carried out in 2011/12. These included reviewing your controls over accounting estimates and evaluating the instructions and other information you provided to your valuer. In addition, I undertook tests of detail on valuations and the associated depreciation calculations. I am satisfied that that the closing value of Plant, Property and Equipment is not materially misstated.

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified during the audit any weaknesses in internal control that are relevant to preparing the financial statements.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

Table 3: **Other matters**

Issue	Finding
In-year reconciliations of feeder financial systems, such as housing benefits and accounts payables, to the General Ledger have not been undertaken in a timely manner and with the intended frequency throughout 2011/12. This increases the risk that the financial statements do not accurately reflect the financial transactions of the Council. In addition, delay in the	In my interim audit, I identified that three financial systems used by the Council were not being reconciled to the General Ledger at the intended frequency of every 3 months. Two of the systems were not reconciled at all before the end of the financial year whilst the third was not reconciled before January 2012. Management have agreed that for 2012/13 they will undertake quarterly reconciliations for each of these systems. I performed additional audit procedures to mitigate the risk of misstatement in the financial statements and was satisfied that the year end reconciliations were completed

Issue	Finding
completion of reconciliations can prolong the time taken to resolve discrepancies identified at year end.	appropriately.

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 17 September 2012 I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 28 September 2012.

Fees

I have delivered my audit in line with the planned fee of £314,500 which I communicated to you in March 2012 and which is in accordance with the scale fee and compares to the prior year fee of £349,500.

Value for money

I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my April 2012 audit plan I reported to you the significant risk that was relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1. My detailed findings are set out below.

Table 4: **Value for money conclusion criteria and my findings**

Criteria	Significant risk	Findings
1. Financial resilience		
The organisation has proper arrangements in place to secure financial resilience. *Focus for 2011/12:* The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	In common with other local authorities, the Council is currently facing unprecedented financial pressures. Council tax income, non domestic rates and non ring fenced government grants reduced from £168 million to £159 million between 2010/11 and 2011/12 (5.4%). Further reductions are forecast over the next three to five years. The downturn in the global economy means there is also downward pressure on fees and charges. The full financial impact of other changes, such as the local business	Merton Council continues to have proper arrangements in place to secure financial resilience. It has a robust medium term financial plan, a good track record in achieving financial targets, and leadership from Members and Officers in driving change. Over the last twelve months, Officers and Members have worked hard to secure the Council's financial position. Members have taken difficult spending decisions, and exercised restraint in terms of spending priorities. As a result of this, the Council has been able to update its medium term financial plan, reducing its four year cumulative budget gap from £30 million to £17 million. Whilst this represents a good

Criteria	Significant risk	Findings
	rates retention scheme, the local council tax support scheme and school funding still needs to be determined. The Council is also facing inflationary pressures and demographic changes which could impact on demand led services such as Children's Services and Adult Social Care. In its medium term financial plan for 2012-15 the Council identified a potential budget gap of up to £27 million. This compares against net revenue expenditure for 2011/12 of £171 million and represents a significant challenge.	achievement, Officers and Members recognise that delivering the additional savings required over the next four years will be challenging, especially given the uncertain funding of business rates from 2013/14 and the central government grant from 2015/16. The key driver for the delivery of further savings is the Merton 2015 Programme. As part of this, the Council is planning to utilise some of its reserves, both revenue and capital, to invest in IT and Infrastructure. This includes investment in the Carefirst system to improve financial monitoring capabilities and in the addition of school places. This is a reasonable and appropriate approach. Once plans have been confirmed they will need to be formalised as part of an updated strategy for the use of reserves. The Council should also confirm the minimum level of non earmarked reserves which it needs to maintain adequate contingency against future uncertainties.
2. Securing economy efficiency and effectiveness The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. *Focus for 2011/12:* The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.		The Council is taking a strategic approach to the delivery of its medium term financial plan. Members and Officers are demonstrating effective leadership in their focus on economy, efficiency and effectiveness. The Council's Merton 2015 Programme demonstrates a strong focus on long term solutions and service re-design, as opposed to short term fixes. There is effective Scrutiny from Members and good use of benchmarking. The Council has a good track record of working in partnership, including with neighbours, and is delivering savings across shared services in areas such as HR, IT, Legal and Payroll. The Council did well to achieve its financial targets for 2011/12. It increased its fund balances (excluding schools) by

Criteria	Significant risk	Findings
		£8m and its usable capital reserves by £4.4 million, in large part due to underspendings on corporate costs, including the cost of borrowing. As at 31 March 2012 the Council had non earmarked balances (excluding schools balances) of £14 million. A major area of focus for the Council over the coming year will be to ensure more consistent budgeting and financial monitoring across its service departments. Whilst many departments operated effectively within their budgets for 2011/12, and have improved the accuracy of their forecasting during the year, there were significant under spends in the following departments of: ■ Adult Social Services £2.9 million ■ Waste Services £2.6 million. ■ Childrens' Social Services £1.1million In each case above, the full extent of the under spend was not predicted until late in the financial year. Members and Officers are exploring the reasons for the individual under spends. Corrective action has or is being taken where appropriate. Management also recognise the need to improve the consistency of budget monitoring throughout the year.

Appendix 1 – Draft independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF MERTON

Opinion on the Authority financial statements

I have audited the financial statements of London Borough of Merton for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Merton in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Corporate Services and auditor

As explained more fully in the Statement of the Director of Corporate Services' Responsibilities, the Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Services; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Merton as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Merton in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Corporate Services and auditor

As explained more fully in the Statement of the Director of Corporate Services' Responsibilities, the Director of Corporate Services is responsible for the preparation of the Council's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Services; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

I am currently unable to conclude as to whether the contents of the Pension Fund Annual Report for the financial year for which the statements are prepared is consistent with the financial statements.

Conclusion on Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and the auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, London Borough of Merton put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of the London Borough of Merton in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack

District Auditor, Audit Commission

1st floor, Millbank Tower, Millbank, London, SW1P 4HQ

Date:………………………..

Appendix 2 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

Amendments to Core Statements		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Single Status reserve	The Council identified a provision arising under Single Status legislation but had only accounted for £539,000 within reserves.	1,131			1,131
Provisions	The Council has agreed to recognise a liability in respect of MMI by appropriating the amount from the existing Insurance Fund.	463			463
CIES – capital grant income	A portion of capital grant income had been incorrectly credited to Net Cost of Services, whereas it should have been credited to Taxation and Non-Specific Grant Income.	545	545		
CIES – capital grant income	An element of capital grant income had been recognised in the CIES before the conditions for recognition had been met. This amount should have remained as a liability in the Balance Sheet, as part of Capital Grants Receipts in Advance.	433			433
PFI liabilities	The element of the PFI liability due within twelve months had been incorrectly included as part of Other Long Term Liabilities.			839	839

Amendments to Core Statements		Statement of comprehensive income and expenditure	Balance sheet	
Finance lease liabilities	In respect of finance leases held by the Council as lessee, a portion of the liability due within twelve months had been incorrectly included as a credit in short-term debtors rather than as a short-term creditor.		294	294

Appendix 3 – Draft letter of management representation

Please see below my request for a letter of management representation.

London Borough of Merton - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of London Borough of Merton, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;

- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Comparative financial statements

A restatement of £62.5m was made to correct a material misstatement in the prior period financial statements. This affects the comparative information of the balance sheet. I confirm that I am not aware of any other material misstatements that would require an adjustment to the prior period financial statements.

Signed on behalf of London Borough of Merton

I confirm that the this letter has been discussed and agreed by the General Purposes Committee on 27 September 2012

Signed

Caroline Holland

Director of Corporate Services

[Date]

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its General Purposes Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

Design and production by the Audit Commission Publishing Team.

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- any director/member or officer in their individual capacity; or
- any third party.

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September 2012

APPENDIX 5

audit commission

Annual governance report

London Borough of Merton Pension Fund

Audit 2011/12

Contents

Key messages

This report summarises the findings from my 2011/12 audit of the financial statements for the Pension Fund of the London Borough of Merton, which is complete.

The Pension Fund Statements were prepared and submitted for audit by the deadline of 30 June 2012. The quality of the financial statements and supporting working papers were an improvement on previous years. My audit is complete and I expect to issue an unqualified opinion by the 28 September 2012.

My audit identified two material issues that I am required to report.

- The transfer of the Council's Human Resources function to the London Borough of Sutton was treated as a Contingent Liability within the Pension Fund financial statements. The terms of the agreement were finalised by the 31 March 2012 and the actuary had provided an estimate of the transfer. Therefore, under International Accounting Standard 37 the transaction should have been treated as a Provision rather than a Contingent Liability. The impact of the adjustment is to decrease the balance on the Fund Account and Net Assets Statement by £4.4 million.
- Bulk transfers in and out of the Pension Fund of £2.297 million and £2.685 million were not separately disclosed within the notes to the Pension Fund Statements. There is no impact on the balances of the Fund Account and Net Assets Statement.

In addition, two non trivial issues were identified that did not impact on the balances of the Fund Account and Net Assets Statement, and a number of minor presentational amendments have also been made by officers. These have no significant effect on the Pension Fund financial statements.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2011/12.

I ask the General Purposes Committee to:

- take note of the adjustments to the financial statements included in this report (Appendix 2);
- approve the letter of representation (Appendix 3), on behalf of the Pension Fund before I issue my opinion; and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

The Pension Fund's financial statements are an important mechanism for you to account for your stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

Subject to satisfactory clearance of the outstanding matters set out in my key messages, above, I plan to issue an audit report including an unqualified opinion on the Pension Fund's financial statements included within:

- the Council's Statement of Accounts; and
- the Pension Fund Annual Report.

Corrected errors

The following paragraphs detail the findings from my audit that I am required to bring to your attention. The Council has agreed to adjust the Pension Fund financial statements for these findings. Appendix 2 details the adjustments to the Pension Fund Financial Statements.

My audit identified two issues that were above my materiality level and a further two issues above my non trivial level. One error, relating to the treatment of the Contingent Liability decreased the Net Assets Statement and Fund Account by £4.4 million. These amendments are set out in full in Appendix 2 and summarised for your attention below:

- Note 24 to the financial statements disclosed a contingent liability in respect of the transfer of the Council's Human Resources function to the London Borough of Sutton. The terms of the agreement were finalised and the actuary had provided an estimate of the liability by 31 March 2012. Therefore, under International Accounting Standard 37 the transaction should have been treated as a Provision. The impact is to decrease the balance on the Fund Account and Net Assets Statement by £4.4 million.
- Transfers In £4.542 million and Transfers Out of £4.344 million included a bulk transfer in from the London Borough of Richmond £2.297 million and a bulk Transfer out to Wimbledon School of Art of £2.685 million. These transfers should be separately disclosed within the notes to the Pension Fund financial statements. There is no impact on the balance of the Fund Account.

- The Movement in Market Value of Investments note 15.3 was inconsistent with the notes 15.2 and 15.4 to the Net Assets Statement. Several classification errors ranging from £77,000 to £753,000 were identified. There is no impact on the Fund Account or Net Assets Statement;
- The cash balance £2.781 million disclosed in note 20 included an overdrawn balance of £113,000. The overdraft balance should be separately disclosed within contingent liabilities.

A number of minor presentational amendments have also been made by officers. The most significant of these was the omission of a note comparing the fair value of financial assets and liabilities with their carrying amounts and a disclosure of the methods of the valuation of financial instruments at fair value.

Officers have amended the Pension Fund financial statements in respect of all of these matters. However, a comprehensive quality review of the Pension Fund financial statements and associated working papers may have identified some of these errors prior to the financial statements being submitted for audit.

Recommendation
R1 Undertake a comprehensive quality review of the Pension Fund financial statements and associated working papers prior to them being submitted for audit.

Significant risks and my findings

I reported to you in my Audit Plan the significant risks I had identified relevant to my audit of your financial statements. In the table below I report to you my findings against each of these risks.

Risks and findings

Risk (as previously reporting in my Audit Plan)	Finding
My prior year audit identified several material misclassification errors between categories of investments and between investments classified as pooled and direct. There is a risk that investment balances within the Net Assets Statement are incorrectly classified.	My substantive testing of Investment balances concluded that they were fairly stated. There are no issues to bring to your attention.

Significant weaknesses in internal control

It is your responsibility to develop and implement the Pension Fund's systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether you have put adequate arrangements in place to satisfy yourself that the Pension Fund's systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

The following weaknesses in internal control are only those I have identified during the audit that are relevant to preparing the financial statements:

Internal control issues and my findings

Description of weakness	Potential impact	Management action
Investments are not recorded in the ledger at market value which prevents a full trial balance from being produced.	The production of a full trial balance is a key process that would assist the Council in identifying any potential misstatements to their Pension Fund financial statements.	Management has agreed to produce a full trial balance as part of the 2012-13 closing process.
A separate Pension Fund bank account was established in line with guidance from the Department for Communities and Local Government by April 2011. Transactions did not start to go through the Pension Fund bank account until December 2011. Prior to this date cash balances were effectively co-mingled with the Council's General Fund bank account. However, officers are able to separate the cash balances relating to the Pension Fund from the Council's General Fund. In addition, the set up of the Council's financial systems prevents all Pension Fund transactions flowing directly through the Pension Fund bank account. Some transactions initially go through the Council's	We are satisfied that the Pension Fund Cash balance is fairly stated, but we are required to report that the current arrangements are not fully compliant with the Local Government Pension Scheme Investment 2009 Regulations.	Ensure compliance with the Local Government Pension Scheme Investment 2009 Regulations.

Description of weakness	Potential impact	Management action
General Fund bank account and a corresponding transfer is undertaken between bank accounts to ensure that Pension Fund bank account position is fairly stated. This is in line with many other Pension Fund administering authorities and we are satisfied that the Pension Fund cash position is materially fairly stated.		

Recommendation
R2 Prepare a full trial balance for the Pension Fund financial statements as part of the closedown process and provide this to auditors as part of the working papers.
R3 Ensure that all income and expenditure relating to the Pension Fund flows directly through the Pension Fund bank account.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including the following:

- Qualitative aspects of your accounting practices these include accounting policies, accounting estimates and financial statement disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Other audit matters of governance interest.

There are no other matters I wish to bring to your attention.

Pension Fund Annual Report

The Pension Fund has prepared its Annual Report. I have reviewed the financial statements contained within the Pension Fund Annual Report. The financial statements included within the Pension Fund Annual Report are consistent with the financial statements and I anticipate reporting on the financial statements included in the Annual Report by 28 September 2012.

Fees

I reported my planned audit fee in the March 2012 Audit Plan.

I will complete the audit within the planned fee of £35,000 which is in line with the scale fee.

Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	35,000	35,000
Non-audit work	0	0
Total	**35,000**	**35,000**

Appendix 1 – Independent auditor's reports

This opinion is an extract from the opinion we will be giving on the main statements. There will not be a separate opinion on the Pension Fund financial statements

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Merton in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Corporate Services and auditor

As explained more fully in the Statement of the Director of Corporate Services Responsibilities, the Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Services; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Andy Mack
District Auditor
1st Floor Millbank Tower
Millbank
London SW1P 4HQ

28 September 2012

This opinion is for the Pension Fund Annual Report

AUDITOR'S REPORT TO A PENSION FUND IN RESPECT OF THE FINANCIAL STATEMENTS PUBLISHED WITH THE PENSION FUND ANNUAL REPORT

Opinion on the pension fund accounting statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Merton in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Corporate Services and auditor

As explained more fully in the Statement of the Responsibilities, the Director of Corporate Services is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Services and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

Andy Mack
District Auditor
1st Floor Millbank Tower
Millbank
London SW1P 4HQ

28 September 2012

Appendix 2 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

Affecting the Main Statements		Fund Account		Net Assets Statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Transfers Out Provisions	The transfer of the Council's HR Function to the London Borough of Sutton that was initially treated as a contingent liability that has now been reclassified as a provision.	4,371			4,371
Current Assets Current Liabilities	The overdrawn Pension Fund bank balance was netted off the cash position rather than being separately disclosed under Current Liabilities.			113	113

Affecting the Disclosure Notes		
Notes mis-stated	Nature of adjustment	Amendment
Note 8 Transfers In From Other Pension Funds	The bulk transfer in from the London Borough of Richmond of £2,927k was not separately disclosed.	Note 8 has been amended to separate bulk transfers in from individual transfers.
Note 10 Payment to and on account of leavers	The bulk transfer out to Wimbledon School of Art of £2,685k was not separately disclosed.	Note 10 has been amended to separate bulk transfers out from individual transfers.

Affecting the Disclosure Notes		
Note 15.3 Reconciliation of the movement in Investments and Derivatives	The note was inconsistent with the notes to the Net Asset Statement (Notes 15.2 and 15.4).	The balance for Fund Managers cash at 31 March 2012 of £3,125k was amended to £3,213k. The balance for Investment Income Due of £979k as at 31 March 2012 was amended to £891k. The Equities balance at 31 March 2012 of £276,049k was amended to £275,296k The Pooled property balance of £14,188k at 31 March 2012 was amended to £14,941k. The opening balances 31 March 2011 for Equities £276,393k, Property £9,883k and Investment Income Due £764k was amended to £276,203k, £9,920k and £917k respectively.

Appendix 3 – Draft letter of management representation

London Borough of Merton Pension Fund audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Officers of London Borough of Merton, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Pension Fund for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Pension Fund.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Pension Fund has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those Investments measured at fair value. I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Pension Fund, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Pension Fund to adjust the accounting estimate and related disclosures included in the financial statements.

Related party transactions

I confirm that I have disclosed the identity of the Pension Fund's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of London Borough of Merton Pension Fund.

I confirm that this letter has been discussed and agreed by the General Purposes Committee on 27 September 2012.

Caroline Holland — Director of Corporate Services

Peter McCabe — Chair of the General Purposes Committee

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Pension Fund after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

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The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

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Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Pension Fund Committee.

Appendix 5 – Action plan

Recommendations	
Recommendation 1	
Undertake a comprehensive quality review of the Pension Fund financial statements and associated working papers prior to them being submitted for audit.	
Responsibility	Treasury and Corporate Accounts
Priority	High
Date	30/6/2013
Comments	This will be carried out as part of the 2012/13 close of accounts process
Recommendation 2	
Prepare a full trial balance for the Pension Fund financial statements as part of the closedown process and provide this to auditors as part of the working papers.	
Responsibility	Treasury and Corporate Accounts
Priority	High
Date	30/6/2013
Comments	Work on reviewing the pension fund coding structure has commenced and it is anticipated that this will be completed by 31/03/2013.

Recommendation 3	
Ensure that all income and expenditure relating to the Pension Fund flows directly through the Pension Fund bank account.	
Responsibility	Treasury and Corporate Accounts
Priority	High
Date	30/9/2013
Comments	A number of system issues has prevented the full compliance of Legislation, it is anticipated that we will complete phase one of the project which relates to payments into the bank account by 31 March 2013 and phase two by 31/08/2013 which relates to payments out of the bank account.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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- any director/member or officer in their individual capacity; or
- any third party.

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September 2012

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CORPORATE SERVICES DEPARTMENT
Caroline Holland - Director

Andrew Mack
Audit Commission
1st Floor Millbank Tower
Millbank
London
SW1P 4HQ

London Borough of Merton
Merton Civic Centre
Morden, Surrey SM4 5DX

Direct Line: **020 8545 3450**
Fax **:020 8545 0446**

Email: **caroline.holland@merton.gov.uk**

Dear Mr Mack,

London Borough of Merton - Audit for the year ended 31 March 2012
I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of London Borough of Merton, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities
I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records
I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;

- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and

- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice
I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.
Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.
All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values
I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions
I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events
I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Comparative financial statements
A restatement of £62.5m was made to correct a material misstatement in the prior period financial statements. This affects the comparative information of the balance sheet. I confirm that I am not aware of any other material misstatements that would require an adjustment to the prior period financial statements.

Signed on behalf of London Borough of Merton
I confirm that the this letter has been discussed and agreed by the General Purposes Committee on 27 September 2012

Signed

Caroline Holland
Director of Corporate Services
27 September 2012

CORPORATE SERVICES DEPARTMENT
Caroline Holland - Director

Andrew Mack
District Auditor
Audit Commission
1st Floor, Millbank Tower
Millbank
London SW1P 4HQ

London Borough of Merton
Merton Civic Centre
Morden, Surrey SM4 5DX

Direct Line: 020 8545 3450
Fax: 020 8545 0446

Email: caroline.holland@merton.gov.uk
Please Ask For:

Date: 27th September 2012

Dear Mr Mack,

AUDIT OF THE COUNCIL'S 2011/12 FINANCIAL STATEMENTS
LETTER OF REPRESENTATION

The General Purposes Committee, which I chair, has approved the Council's 2011/12 Statement of Accounts in accordance with its terms of reference. In carrying-out this function, the Committee relied upon the representations made by the Director of Corporate Services in her letter dated 27 September 2012, which was based upon enquiries made of Chief Officers and other officers within the Council and the Committee was assured by the Director of Corporate Services that these representations were comprehensive to her knowledge and belief.

Yours sincerely

Peter McCabe
Chairman of General Purposes Committee
27 September 2012

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APPENDIX 7

CORPORATE SERVICES DEPARTMENT
Caroline Holland - Director

Andrew Mack
Audit Commission
1st Floor Millbank Tower
Millbank
London
SW1P 4HQ

London Borough of Merton
Merton Civic Centre
Morden, Surrey SM4 5DX

Direct Line: **020 8545 3450**
Fax **:020 8545 0446**

Email: **caroline.holland@merton.gov.uk**

Dear Mr Mack,

London Borough of Merton Pension Fund audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Officers of London Borough of Merton, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Pension Fund for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Pension Fund.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Pension Fund has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those Investments measured at fair value. I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Pension Fund, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Pension Fund to adjust the accounting estimate and related disclosures included in the financial statements.

Related party transactions

I confirm that I have disclosed the identity of the Pension Fund's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of London Borough of Merton Pension Fund.

I confirm that this letter has been discussed and agreed by the General Purposes Committee on 27 September 2012.

Caroline Holland
Director of Corporate Services
27 September 2012

Peter McCabe
Chairmen of the General Purposes Committee
27 September 2012

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